

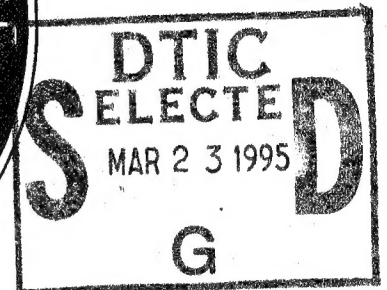
FINAL REPORT OF THE

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# CONTRACT ADMINISTRATION REFORM

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PROCESS ACTION TEAM



TO THE  
UNDER SECRETARY OF DEFENSE  
FOR  
ACQUISITION AND TECHNOLOGY

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## FEBRUARY 1995

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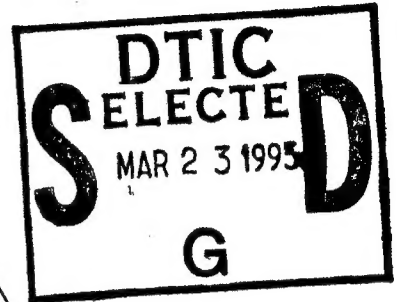
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MAR 03 1995

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS  
UNDER SECRETARY OF DEFENSE (COMPTROLLER)  
GENERAL COUNSEL OF THE DEPARTMENT OF DEFENSE  
INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE  
DIRECTORS OF THE DEFENSE AGENCIES  
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DEPUTY UNDER SECRETARY OF DEFENSE (LOGISTICS)  
DIRECTOR, ACQUISITION PROGRAM INTEGRATION  
DIRECTOR, DEFENSE PROCUREMENT

SUBJECT: Approval of the Contract Administration Reform Process Action Team Report

On November 4, 1994, I approved the charter for the Contract Administration Reform Process Action Team. That team was directed to develop a comprehensive plan to re-engineer specific elements of the contract administration process within DoD in direct support of far-reaching DoD goals related to acquisition reform. The Process Action Team (PAT) focused its efforts in these areas:

- Identifying what contract administration activities are most important to customers and will likely continue as a significant activity after reform, to include making recommendations on how these processes can be reengineered.
- Exploring the potential for early involvement of field contract administration personnel in formulating acquisition strategy and subsequent pre-award activities, with the objective of reducing cycle times, limiting resources required to support the process and easing subsequent contract administration efforts.
- Establishing a process for identifying "quality" contractors and identifying how Government contract administration requirements drive contractor and Government staffing levels.
- Developing recommendations and implementation plans to reengineer the contract administration processes associated with contract closeout, oversight of contractors' overhead rates and contractor payment, as well as examining the Government property process in coordination with the ongoing effort by the Director, Defense Procurement.

The PAT draft final report was widely disseminated throughout DoD and was utilized to obtain feedback and comments regarding the recommendations in the report. Comments were reconciled through the Acquisition Reform Senior Steering Group (ARSSG), and the team briefed me on February 10, 1995.



I have reviewed the PAT's recommendations and approve them for implementation, as outlined in the report, with the following exception:

- Recommendations 13-3: This recommendation is not approved for implementation. However, the Commander, Defense Contract Management Command, will take action to address the concerns of the Process Action Team related to ACO activity involved with inadequate contractor estimating systems.

Implementation of the report's recommendations will be managed by the Board of Directors set up to oversee the operation of the PAT, in coordination with the Deputy Under Secretary of Defense (Acquisition Reform). The Board of Directors will update the ARSSG on a regular basis. A review with representatives of the PAT will be conducted within six months to assess progress and ensure compliance with the intent of the report.

*Paul A. Kaminski*  
**Paul G. Kaminski**



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# EXECUTIVE SUMMARY

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The Contract Administration Services Reform Process Action Team (CAS PAT) was chartered by the Under Secretary of Defense (Acquisition & Technology) [USD(A&T)] to look at several specific issues relative to contract administration reform within the Department of Defense (DoD). This report summarizes the efforts of the CAS PAT and provides the resulting recommendations and suggested implementation plans for those recommendations.

The CAS PAT firmly agrees with the notion that the world in which DoD must operate has changed beyond the limits of the existing acquisition system's ability to adjust or evolve. It is simply not enough to improve the existing system. There must be carefully planned, fundamental reengineering of specific segments of the acquisition system so we can respond to the current realities of our times and the demands we will encounter in the future. The execution and operational problems that encumber today's acquisition system are often the result of yesterday's failures of foresight and implementation. It is the hope of the CAS PAT that the content of this report will provide some of the necessary information to help us have the foresight to see the future and tailor our execution accordingly.

This report presents 36 recommendations and 105 specific tasks to implement those recommendations. Appendix B of the report provides a summary of the recommendations sorted by chapter and also by the office of primary responsibility (OPR) for implementing the recommendations. In addition, each chapter of the report outlines an implementation plan for the recommendations set forth in that chapter.

The CAS PAT believes that implementation of the recommendations made in this report will have a significant impact on the ability of DoD procurement professionals to get the job done more effectively and efficiently. In that spirit, it is suggested that recommendations which are approved be promptly forwarded to the Defense Acquisition University (DAU) so that appropriate curriculum revisions can be made and training can commence. It is also suggested that the entire CAS PAT report be provided to DAU to use as classroom discussion topics, as deemed appropriate.

In every area investigated by the CAS PAT the needs for automation and Electronic Commerce/Electronic Data Interchange (EC/EDI) were evident. Much is currently being done in these areas on several different fronts; however, more is necessary if we are to truly reform many of our acquisition processes. Perhaps no other single subject requires more attention than the issue of "Enterprise Automation" in the performance of contract administration.

The basic function of CAS is to provide information to a large universe of internal and external customers. To do this in an efficient and timely manner EC/EDI efforts need to be accelerated and contract award and performance data must be EC/EDI compatible and electronically accessible. CAS processes should be automated and integrated so users can select information they need, when it is needed, and in a format that makes it useable.

The current defense acquisition process tends to divide roles and responsibilities among requiring organizations, support organizations, acquiring activities, contract administration offices, and contractors. This process often results in solicitations where a contractor's performance risk is not fully identified prior to award or in a contract that cannot be properly executed without modification immediately after award. One challenge for the CAS PAT was to determine how to best bring the expertise of the individuals responsible for ensuring satisfactory contract performance closer to the front-end of the acquisition process to achieve more synergy.

Recognizing that resources are insufficient to provide pre-award on-site support to every acquisition, the CAS PAT developed recommendations and an implementation plan that would make early CAS a core mission and would promote teaming for any award which considered more than cost as the source selection criteria.

An issue that has often been debated and still causes disagreement is the subject of program offices placing their technical representatives in contractor facilities where DCMC personnel are also present. To resolve this contentious issue and preclude needless duplication of efforts, the CAS PAT recommends that program managers and commanders of the Contract Administration Offices (CAO) jointly review the need for technical representatives in contractor's facilities. In addition, program managers and CAO commanders should jointly develop program support plans to ensure agreement on CAS needs and perspectives. To facilitate these recommendations, specific guidance needs to be incorporated into DoD Instruction 5000.2. This guidance should address DCMC's program support mission and DCMC's responsibility to provide contract administration services.

Current DoD budget constraints call for measures to improve the efficiency and effectiveness of DoD's acquisition oversight of defense contractors. It is essential to formulate a process that (1) identifies those contractors where the risk associated with reducing, disengaging or redesigning Government oversight is low, and (2) identifies a methodology for adjusting current levels of oversight based upon contractor performance. Accomplishment of these actions will result in more efficient oversight practices and enhance the opportunity to reduce staffing levels of the Government and DoD contractors. The CAS PAT developed strategies to strengthen risk management associated with contractor oversight. The four specific recommendations are:

- **Tailored Contract Administration Services:** DoD contract administration oversight should be tailored based on a uniform risk assessment methodology. The recommended methodology considers customers needs along with contractor performance levels.
- **Information Sharing and DoD Oversight:** When conducting risk assessments, DoD activities should request all available evidence that could mitigate perceived risks and the need for DoD oversight. Such data might include: commercial reviews or certifications, quality contractor programs, customer audits, and internal audits.
- **Alternative Oversight Proposals (AOPs):** DoD activities should encourage and

facilitate contractor preparation and submission of AOPs. AOPs provide contractors with an opportunity to develop worthwhile alternatives to traditional Government oversight.

- Contractor Self-Oversight: DoD should establish pilot locations to test the viability of contractor self-oversight through the use of technical compliance designees. The recommendation is modeled after the Federal Aviation Administration's approach to the technical surveillance of civilian aircraft design and manufacture.

Major reengineering of the current CAS function of pre-award surveys is recommended to take advantage of other less costly and more timely ways to accomplish this function. The initial use of commercially supplied data is recommended as a far more economical and timely way to facilitate the decision of a contractor's responsibility. When the commercially supplied data is inadequate to support the decision of a contractor's responsibility, CAO performed pre-award surveys can be requested in the traditional manner.

It was the consensus of the CAS PAT that frequently DCMC engineers and software specialists often do not have the capabilities to perform needed engineering software surveillance. It is recommended that innovative approaches to satisfy customer needs for contract administration support in these areas be institutionalized. DCMC should establish a program to ensure technical currency of its engineers and software specialists and expand its ability to draw upon specialized engineering and software expertise.

The CAS PAT conducted a survey of 18 separate CAOs in an attempt to determine the value added in requiring prime contractors to secure Government consent for them to subcontract. It was discovered that approximately 99% of the requests to subcontract were approved, regardless of the status of a prime contractor's own purchasing system. This strongly suggests that the risk of a prime contractor issuing an "unacceptable" subcontract is relatively insignificant. The CAS PAT; therefore, recommends that the consent to subcontract requirement be deleted unless special conditions dictate otherwise.

Also recommended for deletion is the requirement for contracting officers to conduct annual reviews of a contractor's ADPE leasing costs. This current regulatory requirement inhibits CAO personnel from performing risk assessments of potentially more significant areas, because resources must be applied to the annual review of leasing costs. The PAT considers this requirement to be an anachronism in today's business environment.

The broad CAS function of production surveillance consumes 40 to 50% of the total efforts of a CAO. All sources the CAS PAT contacted agreed that a state-of-the-art automated information system would increase significantly the production surveillance efficiency and customer benefit. The future deployment of the DoD migration system for CAS, i.e., the Standard Procurement System (SPS) and Mechanization of Contract Administration Services (MOCAS), will go a long way to facilitate this improvement; however, these systems are not due to be ready until October, 1996. There is a need today for improvements in this area and a solution is also available today. The DCMC "ALERTS" software program, developed by employees at the DCMAO Chicago, represents a readily accessible capability for CAO

personnel to provide on line, real time, tailored status reports to CAO customers. This program is currently being initiated by DCMC as a command wide initiative; however, the CAS PAT recommends that its deployment be accelerated for completion by the end of FY 95.

As the DoD reforms its acquisition processes and begins more and more to embrace commercial practices, the issue of warranties will become more important. The CAS PAT investigated current DoD warranty practices and found that many do not contribute to effective management and contract administration. In this regard the CAS PAT recommends that the full range of DoD warranty practices be reviewed for possible revision, elimination, or incorporation of commercial practices.

Two areas of opportunity were identified in the context of government property in the hands of defense contractors. The first was authorizing the Plant Clearance Officer to dispose of scrap property without the current requirement for limited screening through the General Services Administration (GSA). The second was establishing a \$1,500 threshold for tracking and monitoring government property in the possession/control of defense contractors. These recommendations eliminate non-value added effort on the part of both contractor and contract administration personnel.

Recommendations involving the oversight of contractor's overhead rates were divided into four areas; forward pricing rates, estimating systems, should cost reviews, and final overhead settlement. These four areas are highlighted below:

- The CAS PAT recommends the use of tailored forward pricing rate agreements (FPRA) to accommodate acquisitions that would otherwise be delayed due to uncertainties associated with major programs. It is also recommended to establish parameters within FPRAs to facilitate renegotiation by elements of cost rather than renegotiating of the complete FPRA.
- The CAS PAT recommends that a reduction of 10% in progress payments be enforced when a contractor's estimating system has been determined to be inadequate and insufficient progress is being made by the contractor to correct the deficiencies.
- The CAS PAT recommends that should cost reviews be conducted only when they have been preceded by a thorough risk assessment that indicates by objective, empirical data that a should cost review is needed.
- The CAS PAT recommends that the average cycle time for final overhead settlements be reduced through: audit sampling, enforcement of timely submissions of proposals, and establishment of goals for submission of final overhead rate proposals, timely completion of audits, and settlements.

Closely associated with issues involving the oversight of overhead rates is the established Cost Monitoring Program. Current regulatory guidance places restrictions on the implementation of the Cost Monitoring Program. The CAS PAT recommends that policies be

changed to allow CAOs greater flexibility in planning and executing this program.

Timely contract closeout became a priority issue once Congress established time limits for the use of appropriated funds ("M" account). The AFMC/Interagency PAT recommended improvements in the closeout process. The CAS PAT agrees with those recommendations; however, in a few instances recommended alternatives have been offered. The CAS PAT also developed recommendations to require pre-validation of DD Form 250 electronic transmissions, to require DD Form 250 for all data deliveries, and to expand ACO advice/status notices.

As the PAT investigated areas of specific concerns to its research, other important issues were often highlighted. Appendix C, "Subjects for Further Study," is a compendium of short issue papers which outline some of those areas which the PAT members thought were issues worthy of further consideration. These issues were not included in the full report due to time constraints, and/or lack of consensus by the PAT members.

Central to the theme of many of the recommendations contained in this report is the preference for risk management vice risk avoidance. Many of the systems we have created in our bureaucracy have evolved in such a way as to attempt to prevent mistakes from happening. Over time, as these systems institutionalized more and more mistake prevention controls, fewer mistakes occurred. As each new mistake surfaced, new policies were added to the systems to prevent such mistakes from recurring. Ideally, the bureaucracy would eventually create perfect systems, in which all mistakes would be anticipated in advance and prevented. Unfortunately, such perfect systems overlook a reality of human behavior, since only those who do nothing at all avoid mistakes. This helps to explain why in a bureaucracy the systems that focus on risk avoidance will eventually destroy individual initiative and drive such systems to inefficiency in the pursuit of risk avoidance.

The CAS PAT report presents recommendations that are meant to both highlight areas for improvements and to institutionalize a reengineering of some fundamental contract administration processes. Without the will and subsequent action to implement fundamental change to the processes involved in the acquisition function, we will merely witness another round of acquisition reform that ultimately results in more form than substance. In this sense we need to remember that if we always do what we always did, we will always get what we always got.



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# OVERVIEW

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## Mandate for Change

The Secretary of Defense, Dr. William J. Perry, in his March 15, 1994, memorandum, which sent his paper, "Acquisition Reform—A Mandate for Change", to the Secretaries of the Military Departments and the rest of the senior leadership within the Department of Defense (DoD), states the following:

"The Department of Defense (DoD) faces unprecedented challenges in preserving force effectiveness in light of a radically changed threat, substantially declining defense budgets, and rapidly changing technology. The existing acquisition system will not be, and in some cases already is not, capable of responding to customer needs in this new environment. The fact is—the world in which DoD must operate has changed beyond the limits of the existing acquisition system's ability to adjust or evolve—it must be totally reengineered."

The reengineering of DoD's acquisition system in the 1990's has a significantly different focus from acquisition reform efforts in previous periods. Today, the emphasis is away from incremental improvements and peripheral changes and toward radical reform of fundamental processes.

The DoD's acquisition process is a complex web of laws, regulations, and policies, each of which were adopted for laudable reasons over many years. While each rule individually has (or had) a purpose, and may be important to the process in its specific scope, it often adds no value to the products and services being acquired. When combined, the myriad of "rules" contribute to an overloaded acquisition system that is often paralyzed and ineffectual, and at best, cumbersome and complex. The existing DoD acquisition system—not unlike that of many companies in the U.S. and around the world—can best be characterized as an "industrial era bureaucracy in an information age."

The DoD contract administration process is at least partially to blame for the characterization that the DoD acquisition hierarchy had an unquenchable appetite for data and paperwork, was quick to second guess decisions, and worse yet, revisited decisions endlessly. People are encouraged to conform—to follow the rules, to document their actions, and to avoid risk,

rather than innovate and use good business judgement . The system rewards those who follow the rules and avoid risks. It allows people to point the finger at someone else in the process—Congress points to DoD's management, DoD points to Congress, and people within the Services point to DoD leadership.

DoD must advocate balancing the risk associated with reducing oversight against the costs to the Government of ensuring compliance. The DoD contract administration process and practices must be reformed so they are compatible with current realities in terms of management theory, economic conditions, and business trends.

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## The Charter

The Under Secretary of Defense (Acquisition & Technology) [USD(A&T)] directed that a cross functional process action team (hereafter referred to as the PAT) be formed to address the reengineering of specific contract administration processes. The PAT included representatives from the Office of the Secretary of Defense (OSD), the Military Departments and the Defense Agencies. The PAT was directed to develop, within a period of 90 days, a comprehensive plan to reengineer contract administration within DoD to make specific processes more efficient and effective (see complete charter at Appendix A).

The PAT was chartered to investigate the following areas/ issues and make recommendations for reengineering the associated processes:

- Identify and improve contract administration activities most important to customers and which will likely continue as a significant activity after reform.
- Explore the potential for early involvement of field contract administration personnel in formulating acquisition strategy and subsequent pre-award activities.
- Establish a process for identifying "quality" contractors and identifying how Government

contract administration requirements drive contractor and Government staffing levels.

- In coordination with other DoD reform initiatives, completed or on-going, investigate opportunities to reengineer processes involving the administration of government property, the oversight of contractors' overhead rates, the closeout of defense contracts, and the payment of such contracts.

It should be noted that the PAT's charter specifically directed that the PAT recommend ways to reengineer the contract administration process, with a focus on a "clean sheet of paper" approach to the particular aspect of the process being reviewed. The PAT's focus is primarily on improving internal DoD processes and procedures. These efforts, in conjunction with legislative reform efforts and DoD participation in Federal procurement reform efforts, will help to ensure that the contract administration processes are being examined at all levels.

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## **The Process Action Team (PAT)**

The Contract Administration Services (CAS) Process Action Team convened on October 17, 1994, at Cameron Station, Virginia.

Prior to convening the PAT, the Board of Directors, which was made up of senior representatives of the acquisition community in the OSD, the Military Departments, and the Defense Agencies, canvassed their respective organizations for candidate PAT members. The ultimate PAT membership resulted from those efforts of the Board and the subsequent appointment of individuals from the various DoD activities. Since the purpose of the PAT was to address the issue of contract administration processes, the Defense Contract Management Command (DCMC), which is responsible for the preponderance of such services in DoD, was most heavily represented in the PAT membership.

The PAT was organized into five subteams:

- Team 1 - Early CAS
- Team 2 - Customer Requirements
- Team 3 - Quality Contractors
- Team 4 - Property, Closeout, Payment, and Overhead Rates
- Team 5 - PAT Administration

Each subteam was comprised of representatives from the Military Departments, Defense Agencies, and OSD. The subteams developed recommendations pertinent to their respective focus areas. The chapters of this report represent the individual findings and conclusions of each of the subteams relative to their focus areas. Subteam #5 provided administrative support to the other subteams and consequently, its efforts are not specifically addressed under a separate chapter of this report.

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## Approach

The PAT pursued objectives through a logical, step-by-step approach. First, the PAT identified CAS customers and then it identified the range of CAS provided to them. Next, it identified those CAS functions that were perceived to be most important to customers. Finally, it identified those functions that offered the highest potential as targets for reengineering.

During this process, the PAT relied on quantitative and qualitative sources, such as DoD Inspector General (DoD IG) reports and the DCMC FY 1993 "Facilitating Our Customers Ultimate Satisfaction (FOCUS)" survey of customer satisfaction levels (DCMC, 1993). The survey encompassed the responses of 1,066 DoD CAS customers.

The following paragraphs address each step of the approach:

### *Identifying the customers*

First, the PAT defined the primary CAS customers as the program manager and buying activity, i.e., those who actually use CAS on a daily basis. While it was recognized that many other internal and external customers exist, it was decided that

narrowing the definition of primary customer(s) would help to focus the reengineering efforts. Further, while the growing importance of civilian agency CAS customers was recognized, for the purposes of this PAT it was assumed that their needs are essentially the same as those of DoD customers.

***Identifying the population of CAS functions***

After deciding who the CAS customers were, the PAT identified the various CAS functions provided to those customers. Federal Acquisition Regulation (FAR) Part 42.302 lists 77 discrete CAS functions. Additional CAS functions were gleaned from the Defense Federal Acquisition Regulation Supplement (DFARS), the Defense Logistics Agency Directive (DLAD) 5000.4, "Contract Management" (DCMC, 1994, October), Memoranda of Agreement between Contract Administration Offices (CAO) and program offices, and from DCMC initiatives. In total, 129 distinct CAS functions were identified.

***Evaluating the risk associated with CAS functions***

Next, the PAT evaluated what were perceived to be the risks associated with the 129 functions. For each function the following question was asked, "If this CAS activity were not performed, what would be the resultant risk to our customer in terms of cost, delivery and performance?"

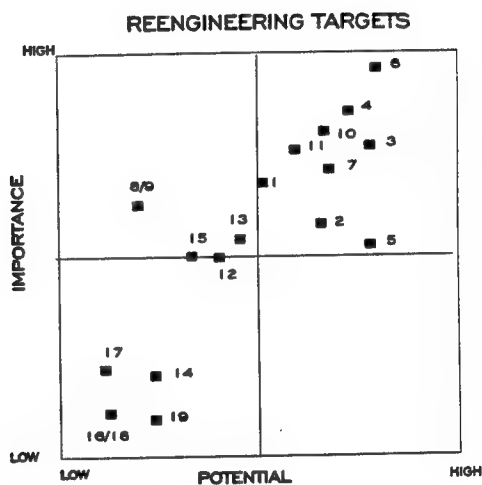
Based on the collective judgement of the PAT in answering the aforementioned question, a risk index was assigned to each CAS function and those functions were then arrayed from highest to lowest risk. To improve the manageability of the array, similar functions were grouped together. Ultimately, the 129 functions were grouped into 19 broad categories, each with a composite risk index.

***Identifying targets for reengineering***

Using this methodology, the PAT decided on those specific areas of CAS that appeared to be the best targets for reengineering. There were two major elements in the decision. First, the focus was on CAS activities representing high risk and high importance to the customers. Second, the focus was on

activities that offered high potential as reengineering targets, in other words, those that were deemed to offer high payoff from reengineering. The 19 CAS categories were rated based on these elements and plotted using the Johari Window Technique. The results are shown in the figure below. Customer importance was plotted on the vertical axis, reengineering potential on the horizontal axis. It was agreed that the PAT would focus its efforts on those activities associated with high customer importance and those offering a high potential for reengineering.

- 1 WARRANTIES
- 2 MONITORING PAYMENTS
- 3 SUBCONTRACTS
- 4 QUALITY COMPLIANCE
- 5 BUSINESS SYSTEM REVIEWS
- 6 SOFTWARE
- 7 ENGINEERING
- 8 FLIGHT OPERATIONS
- 9 ENVIRONMENT/SAFETY
- 10 NEGOTIATE/MODIFY
- 11 PROGRAM INTEGRATION
- 12 OVERHEAD
- 13 PRODUCT SURVEILLANCE
- 14 INTELLECTUAL PROPERTY
- 15 PRICING
- 16 TRANSPORTATION
- 17 SECURITY
- 18 SMALL BUSINESS PROGRAM
- 19 OTHER



***Twelve reengineering targets identified.***

Nine activities fell into the upper right quadrant of the diagram. The PAT decided to add CAS categories #12, #13, and #15. Thus, twelve CAS categories became the initial targets for the reengineering efforts. Those twelve categories were:

- Warranty administration
- Subcontracting management
- Quality compliance
- Business systems reviews
- Software surveillance
- Engineering surveillance
- Monitoring payments
- Negotiation/modification of contracts
- Program integration
- Production surveillance
- Overhead
- Pricing

***Were the right targets identified?***

The above findings were correlated and compared to the areas that DCMC's FOCUS survey had previously identified as most important to customers (DCMC, 1993, December). The comparison showed that the targeted categories had, in fact, been previously identified by DCMC as highly important to customers, with two exceptions: business system reviews and warranty administration. In the opinion of the PAT, after reform both of these CAS activities will likely increase in significance. Business systems reviews will function as a yardstick for identifying low risk contractors, and warranty activity will increase as more commercial items are procured. Consequently, the PAT included these activities in the initial list of reengineering targets.

***Use of Focus Groups***

In addition, the PAT received direct feedback from customers using a market research tool called Focus Groups. Small groups of customers were invited to participate in facilitated focus group discussions of their contract administration needs. In total, the PAT conducted a series of five focus groups, each carefully assembled to maximize participation. Through these focus groups the PAT was exposed to the needs of various categories of customers. This direct feedback further



confirmed the twelve categories of CAS activities selected for reengineering. It is the consensus of the PAT that these twelve CAS categories reflect the current and future needs of CAS customers.

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## The Report

This report addresses the aforementioned CAS categories, as well as the specific focus areas mandated in the Charter. The chapters of this report treat each of the CAS categories either as specific chapters or by way of general inclusion in the context of other specific issues. It should be noted that each chapter of the report is written as a self-contained unit that can be separated from the overall report.

As the PAT investigated areas of specific concerns to its research, other important issues were often highlighted. Appendix C, "Subjects for Further Study," is a compendium of short issue papers which outline some of those areas which the PAT members thought were issues worthy of further consideration. These issues were not included in the full report due to time constraints, and/or lack of consensus by the PAT members.

During the drafting of the report, many comments were received from different DoD organizations. Relevant comments were incorporated into the report, as appropriate. In total, the report represents the amalgamation of not only the PAT's efforts and thinking but also those efforts and thoughts of many individuals throughout DoD.

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CHAPTER TWO

# ENTERPRISE AUTOMATION

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## Introduction

The reality that faces the contract administration community is the need to continue to provide support to customers with reduced resources. Given this reality, it is essential that Contract Administration Services (CAS) providers develop drastically more efficient ways to perform those CAS processes needed by customers. The rapid advancement in information technology, or the information superhighway, offers a significant opportunity to reengineer CAS processes to gain the needed efficiencies. This chapter sets forth a course of action for the CAS community to seize this opportunity; to leverage the diminishing CAS workforce to satisfy the customers' most important needs.

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## Objective

Provide recommendations that will enhance and accelerate application of automation technology and methods in providing CAS products and services to program managers and buying commands in the most efficient and effective manner.

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## Recommendations

*Reengineer key CAS processes needed to serve customers; automate and integrate them*

Department of Defense (DoD) components performing CAS should reengineer key processes needed to serve customers; automate and integrate them (Recommendation 2-1).

*Expand and accelerate DoD EC/EDI contract awards to large purchases*

Expand and accelerate DoD Electronic Commerce/Electronic Data Interchange (EC/EDI) contract award efforts to encompass large purchase contracts (Recommendation 2-2).

*Standardize transaction data sets and data for CAS; convert existing CAS data*

Standardize CAS transaction data sets, standardize CAS data, and convert existing CAS data to allow electronic sharing and accessibility (Recommendation 2-3).

*Integrate and demonstrate accessibility to CAS databases by all users*

Integrate and demonstrate accessibility to CAS databases by program offices, buying commands, receiving activities, Defense Finance and Accounting Service (DFAS), Defense Contract Management Command (DCMC), accounting offices, and contractors to support procurement and CAS activities (Recommendation 2-4).

*Empower the SPS PMO with authority, responsibility, and accountability*

Empower the Standard Procurement System (SPS) Program Management Office (PMO) with the authority, responsibility, and accountability to develop and implement an automation system meeting the needs of CAS (Recommendation 2-5).

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## Discussion

*CAS provides numerous information products for a large universe of customers, all having varying needs*

In assessing customer needs, the Process Action Team (PAT) concluded that the primary focus of contract administration services is to assure that products and services are delivered by the contractor on-time, with high quality, at a reasonable price. This results in providing numerous CAS information products to a large universe of external and internal customers, all having varying needs and requirements.

*Existing methods and tools are inadequate in meeting customer needs*

Information products are requested by many customers in different formats, produced using varying processes, and are not universally automated. Existing methods and tools for gathering data, transforming the data into information products, and dissemination of information products is not adequate in meeting customer needs for quality and timeliness. Furthermore, the current methods and tools are inflexible in adjusting to dynamic customer requirements.

*CAS information products are important to customers but customer satisfaction is low*

DCMC 1993 Customer Assessment (DCMC, 1994, January) data confirms the importance of information products to CAS customers, and confirms that the satisfaction associated with these products is low. Low customer satisfaction is attributed primarily to poor timeliness and quality of the CAS information products. CAS information products significantly affect the customer's ability to award contracts and assess contract performance. The Customer Assessment data and customer Focus Group interviews conducted by the PAT show that:

- CAS information products are not always timely and information content is not always complete or adequate, leaving no opportunity for the customer to reprogram or take alternate action.
- Some customers feel that getting routine program information has been difficult, if not impossible. They want more timely, accurate, and synthesized assessment of contract performance.
- Customers want standard data to support risk assessments during the source selection process.
- Customers want the capability to tap into CAS databases to look at contractors' current and past performance.

*Urgent immediate need for an integrated, flexible system to automate CAS processes*

DCMC Activity Based Costing (ABC) data indicates the cost to provide all services and products to customers is \$875M annually (DCMC, 1994, April). CAS information products will continue as significant customer needs after procurement reform. There are numerous automation initiatives underway throughout the Defense Contract Management Command, the Procurement Corporate Information Management (PCIM) System, the DoD Electronic Commerce/Electronic Data Interchange Initiative (EC/EDI), and the Standard Procurement System (SPS). However, many of these efforts lack integration with other CAS functions, and have deployment schedules that extend into the outyears. There is an urgent, immediate need for an integrated, flexible system which automates CAS processes. Field contract administration offices are losing resources now and, therefore, need early deployment of tools to automate key processes. This objective is achievable; certain successes in automation,

which will be discussed later, show that an "80 percent solution" can be developed and deployed rapidly, with modest expense. The following recommendations will capitalize on these successes and enhance and accelerate the ongoing automation activities:

*DoD components performing CAS should reengineer key processes needed to serve customers; automate and integrate them  
(Recommendation 2-1)*

Several key customer needs are identified in Chapter One of this report. Of those needs, the PAT recommends that the following areas be reengineered and associated processes be automated:

*CAS products/services recommended for automation*

Customer Need	Product/Service
Program Integration	Program Status Reports Program Status Data(PSD) Bellringers MOAs Cost Performance Report Analysis
Production Surveillance	Delivery Status/Forecast Expedite Delivery Status Readiness Status
Subcontracting Mgmt	Subcontractor Status Rpts
Contract Modifications	Contract Mods
Quality Compliance	Deficiency Reporting DD250 Validations
Contract Closeout	Reconciliations of: Contract data DD250s Vouchers

***CAS information products  
significantly impact the  
customer***

In a downsizing environment with clerical support diminishing, CAS professionals spend an inordinate amount of time in accessing, transcribing, compiling, and manipulating data through mechanical means; then photocopying, filing, and disseminating information by mailing and faxing. Time spent performing these tasks is time not spent on value added analysis and providing meaningful information and recommendations to customers. An environment of touching numerous pieces of paper causes errors and delays, e.g., poor quality and untimely submission of information to the customer.

***Process features  
recommended for automation***

Defense Logistics Agency (DLA) Directive 5000.4, Contract Management, identifies the key processes associated with contract administration. DCMC has numerous initiatives focused on improving those processes and adopting best practices. As an adjunct to these ongoing process improvement efforts, the CAS processes identified by the PAT should be immediately reengineered, then automated and integrated to facilitate improved customer satisfaction and reduced cost of doing business. Processes requiring generation of forms or documents can be automated via automated document conversion; however, the focus should be to retain document images in lieu of hardcopy forms, and provide access to contract and contract performance data electronically. Graphical User Interface (GUI) capabilities are available to accommodate tailored applications. All contract performance databases should be made relational to provide real time data, allow multi-user accessibility, provide flexible formats to users, and accommodate ease of application development. Problem alert features should be expanded on an integrated basis. All reconciliation type activities should be automated to minimize human intervention. Where processes contain decision making actions, the information needed to assist in the decision process should be available to the decision maker in an automated and easily accessible form. Sophisticated off-the-shelf, windows-based software is available and should be used to the maximum extent for applications.



The DoD migration system for contract administration, SPS/Mechanization of Contract Administration Services (MOCAS), will have enhancements for Contract Review and Receipt, Contract Modification, and Contract Closeout available in October 1996. Other CAS functions will be automated on a schedule extending to 1999 and beyond. CAS processes identified by the PAT to satisfy key customer needs should be reengineered and automated immediately; and included as part of the initial enhancements. Costs for automation of all CAS processes have already been identified and are based on the Integrated Contract Administration Services (ICAS) system estimated at \$143.7M.

***Expand and accelerate DoD  
EC/EDI contract award  
efforts to encompass large  
purchase contracts  
(Recommendation 2-2)***

Current EC/EDI activities are primarily focused on small purchase contracts and targeted for high numbers of transactions, as depicted in the table below. Although the numbers of transactions are large, the contract dollars obligated are small. The contracts with larger dollar values are those with greater complexities, longer lead times, and inherent risks for which CAS support is needed by the customer. In addition, there are a high number of CAS transactions not included in the table below such as contract modifications, Engineering Change Proposals, Contract Change Proposals, Basic Ordering Agreement orders, and Provisioned Item Orders that would benefit from EC/EDI contract awards.

FY92	ACTIONS	\$ OBLIGATED
\$25,000 or less	11.851M	14.8B
Greater than \$25k	0.236M	121.4B
Total	12.087M	136.3B

Source: Washington Headquarters Services (excerpted from DoD EC/EDI in Contracting Report, 20 Dec 1993)

DoD EC/EDI contract awards should be expanded and accelerated to include the total universe of contracts.

***Standardize CAS transaction data sets, standardized CAS data, and convert existing CAS data to allow electronic sharing and accessibility (Recommendation 2-3)***

Crucial to enterprise automation is storing data in a standard way to insure that all information being shared are compatible and accurate. Standardized data definitions and standardized transaction data sets (or formats) are both required. To date, EC/EDI efforts have only addressed standardization of data for contract award and not CAS processes. EC/EDI has committed to using standard data transaction sets for procurement actions. Standardized data transaction sets for CAS should also be developed consistent with those already in use, and already approved by DoD. These sets that are currently in use include data used to manage many commercial business transactions encompassing engineering, contracts, finance, insurance, manufacturing, product service, purchasing, materials management, quality, safety, transportation, and warehousing. Additionally, existing CAS data must be retrofitted to standardized data definitions to allow electronic sharing, integration, and access to information. It will also provide consistency between delegated and non-delegated CAS.

***Integrate and demonstrate accessibility to CAS databases by program offices, buying commands, receiving activities, DFAS, DCMC, accounting offices, and contractors to support procurement and CAS activities (Recommendation 2-4)***

Various information systems have been or are being developed to respond to specific functional needs, resulting in redundant data fields and redundant hand-keying of information. Examples of these systems are:

- Mechanization of Contract Administration Services (MOCAS)
- Automated Configuration Tracking System (ACTS)
- Program Status Data (PSD)
- Acquisition Management Information System (AMIS)
- Performance Labor Accounting System (PLAS)
- Base Contracting Automation System (BCAS)
- Standard Army Automated Contracting System (SAACONS)
- Automation of Procurement and Accounting Data Entry (APADE)
- Integrated Technical Item Management Procurement System (ITIMPS)
- Air Force Materiel Command Suite (AFMC Suite)
- DLA Pre-award Contracting System (DPACS)
- Procurement Automated Data and Document System (PADDS)

Information generated from these systems is not being shared on a crossfunctional, multi-organizational, or integrated basis. Each information system has its own operational characteristic resulting in incompatibility of data definitions, application software and hardware architecture. Additional cost burden is associated with maintenance and unique training for each system.

Standardized CAS data definitions are being released incrementally which allow for incremental electronic sharing of data. The SPS PMO should ensure integration and demonstrate accessibility of all evolving CAS databases to all users. The PAT recommends the System for Integrated Contract Management (SICM) discussed in Recommendation 2-5 be integrated with the SPS shared data repository test to demonstrate the shared data repository concept.

*Empower the Standard Procurement System (SPS) PMO with the authority, responsibility, and accountability to develop and implement an automation system meeting the needs of CAS (Recommendation 2-5)*

Barriers to effective development and deployment of an integrated automated procurement and CAS system are:

- Insufficient funding - SPS is insufficiently funded for the preaward migration system. The funding for the postaward migration system is adequate as based on the former Integrated Contract Administration Services (ICAS) budget. Funding needs to be provided for the total SPS system to achieve a fully integrated system.
- Resources are not dedicated nor integrated - Specialists from each DoD component need to be dedicated to the SPS team to ensure their requirements are adequately addressed and integrated with the total system.
- Mainframe and single function approach for the automation solution - The current CAS automation system (MOCAS) is based on a hierarchical architecture with single function modules. The CAS migration system should be based on an open architecture where applications are fully integrated and can be developed quickly and cheaply using off-the-shelf software whenever possible.

- Accountability - No one organization has been held accountable for a fully integrated system designed to satisfy a multitude of users.

The PAT recommends the SPS PMO have direct control of assets (budget and resources) chartered to design and deploy a fully integrated, open architecture system with the following attributes or features:

- Flexibility to adjust to changing customer requirements and information technology advances
- Designed using off-the-shelf software to the maximum extent possible
- Integrated with existing and projected information networks throughout DoD
- Ability to use EC/EDI with the commercial procurement contract management community
- User friendly at all levels
- Continuous self updating with minimal downtime
- Designed to satisfy user/customer requirements at all levels
- On-line availability throughout DoD
- Real time source data inputting with validation
- Security provisions for access
- Modular
- Flexible and dynamic query capability
- Automated document and information product creation
- Mobile office capability

*SPS CAS automated applications should be modeled after demonstrated successes of locally developed tools*

Recently, two local tools have been developed by Defense Contract Management Area Office (DCMAO) Chicago and Defense Contract Management District International (DCMDI) that provide desirable automated features for CAS. The DCMAO Chicago Advance Liaison On Emergent Risk To Schedules (ALERTS) system downloads MOCAS information to provide instant access to contract and Contract Line Item Number (CLIN) data; provides automated status and record-keeping for CAS team members; provides communications facilities for team members located at remote sites; and generates tailored status reports for CAS customers. The DCMDI System for Integrated Contract Management (SICM) is a contract and resource management tool.

Features of this tool are:

- Basic query and report writing
- Intermediate query and structured query language (SQL) report writing
- Executive query - recurring and ad-hoc report writing
- Windows-based and "modular" software units
- "Worldwide" availability
- Graphical user interface compatibility
- Electronic decision making
- Integrated business, technical, and resource work center management
- Electronic business, technical, and resource management tool kits
- Multi-site value added networks
- Electronic procurements
- Reduced paperwork
- Mobile office ready

Both tools provide "windows" of information to the user and were developed by the users with inexpensive off-the-shelf software. Both were developed very rapidly. While neither ALERTS nor SICM offers a total solution, both offer an 80 percent solution that is deployable in the near term.

Automated generation of reports for the customer is a common feature found in both tools. Both tools should be used for concept proofing of CAS functionality for SPS development efforts. Any CAS process functionality offered in SPS should provide capabilities and "windows" of information similar to that provided by ALERTS and SICM. The PAT recommends that SICM be piloted at CONUS locations to evaluate its functionality and assist in concept proving. The most important attribute of SICM and ALERTS, is that both demonstrate what is capable when system development is pursued in an open architecture environment relying on commercial-off-the-shelf software.

*Accelerate transition of CAS functions*

The plan to convert the CAS automation system to an open architecture and relational database consists of moving certain functions into a shared data environment by the end of FY96. The plan is to transition all other functions to the shared data repository incrementally over a subsequent two to three year period.

The PAT recommends that the plan be accelerated to transition all functions by October 1996. To do otherwise would restrict the ability to move forward rapidly on other automation fronts. Automation is vital to CAS business operations and plays a crucial role in business reengineering. The following barriers to automation currently exist and must be resolved immediately:

- DFAS-D has not agreed with the shared database concept and is not willing to provide funding.
- DLA System Design Center-A manning and funding levels are insufficient to support transition of all functions by October 1996.
- SPS/MOCAS and SPS/DPACS migration efforts are being deferred while a common commercial derivative solution is being pursued.

After the SPS PMO is fully empowered with funding and other resources it should be held accountable for deploying automated tools in the near term to CAS field activities.

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## **Comparison of Effects**

Acquisition improvements require data convenience and cost-effective data management. In the current and future environment, CAS will be providing information products and services to a multitude of customers to satisfy varying and changing requirements. Providing information in real time will increase customers' capabilities to react to the end users' needs faster and provide alternate solutions to satisfy those needs. It will allow customers to make cost-effective decisions and allocate dollars and resources more effectively.

Dramatic changes are required in the way the CAS community does business. Business practices that focus on customers, process orientation and adoption of best commercial practice, all lead to providing meaningful information faster and in user friendly format. Automated information is the way of the future and beyond, leading to a paperless system. Additionally, as procurement business base shifts and work loads change, automation would help minimize the need to move mass groups of people or hire additional resources to meet changing needs.

**Benefits:**

- An improved automated information/communication system will provide increased visibility to the customer leading to improved customer satisfaction.
- Reduces cycle time in getting information products to the customers.
- Eliminates duplication and transposition of information from many sources.
- Reduces/eliminates non value-added efforts such as photocopying, filing, and mailing.
- Will be consistent with the planned information networks throughout DoD.
- Reduces or eliminates paperwork.
- Facilitates CAS process improvement and reengineering.
- Delivers current technology to the workforce.
- Reduces information handlers and focuses on value added activities that will lead to more efficient use of resources. This is consistent with the downward trend in budget and manpower, without the normal sacrifice in the quality and timeliness of the output products.
- Allows users to select exactly what information they need, when they need it and in the format they need.
- Allows field personnel at remote sites to send and receive information wherever they are.
- Reduces cost of doing business.
- Expedites and enhances decision making.
- Centralized responsibility and authority for SPS development and implementation will facilitate success.

## **Disadvantages:**

- Many organizational stakeholders need to be involved. It will be difficult to achieve consensus on automation requirements and architecture due to differing needs.
- Security in maintaining shared access of data will need to be considered.
- Industry will have concerns regarding proprietary information.
- Current government personnel are not knowledgeable of current automation technology and how to apply it to satisfy CAS requirements.
- System availability, contingency planning, and reliability will be a major concern.
- Non-availability of funding.

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## **Risk Management**

Rising customer expectations and declining resources are countervailing trends that confront the contract administration community. Only through aggressive deployment of automated tools can contract administration activities expect to succeed in today's environment. There are multiple ongoing efforts to deliver automated tools to field activities; the PAT believes these status quo efforts will be too late in delivering the needed tools. CAS organizations are losing resources now, and need automated tools now. Accordingly, the risk of continuing the status quo is significant. On the other hand, there are risks in deploying an "80 percent solution" like SICM or in moving ahead without full definition of requirements. Open system architecture does help mitigate this downside risk as automation moves forward. The PAT fully recognizes the risk of moving forward too rapidly, but strongly believes the risk of moving forward too slowly is far more significant.



## Implementation Plan

Recommendation Number	Task	OPR	Date after Approval
2-1	A. Reengineer CAS processes identified by PAT and identify specific areas for automation.	DCMC & Other CAS Components	3rd Qtr
	B. Develop and deploy automated applications for CAS processes	SPS PMO	6th Qtr
2-2	A. Develop and execute plan to expand DoD EC/EDI contract awards for large purchases	DUSD(AR)	3rd Qtr
2-3	A. Develop standardized CAS transaction data sets	SPS PMO	1st Qtr
	B. Develop standardized CAS data definitions for relational database	SPS PMO	2nd Qtr
	C. Convert existing CAS data	SPS PMO	3rd Qtr
2-4	A. Integrate SICM pilot with DSDC test of SPS shared data repository to demonstrate integration and accessibility of CAS data	SPS PMO	2nd Qtr
2-5	A. Give SPS PMO direct control over all team members. Dedicated ADP specialists/functional personnel.	DDP	1st Qtr
	B. Ensure SPO PMO team includes CAS field level personnel, buying activities, DFAS, and ADP specialists with relational database and current technology applications experience.	SPS PMO	1st Qtr
	C. Develop and execute plan to move MOCAS from hierarchical architecture to open systems and relational database by Oct 1996	SPS PMO	1st Qtr
	D. Pilot SICM functionality at CONUS locations	SPS PMO	2nd Qtr
	E. Incorporate system features and attributes recommended by PAT, and functionality contained in ALERTS and SICM into SPS plan	SPS PMO	1st Qtr

	F. Resolve barriers identified by PAT to implement SPS	SPS PMO	1st Qtr
	G. Identify additional funding requirements to implement PAT recommendations	SPS PMO	1st Qtr
	H. Provide total SPS funding	OSD(C)	2nd Qtr

## Milestones

Task Name	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8
<b>Recommendation 2-1</b>								
A. Reengineer CAS processes identified by PAT and identify specific areas for automation.	DCMC & CAS Components							
B. Develop and deploy automated applications for CAS processes	SPS PMO							
<b>Recommendation 2-2</b>								
A. Develop and execute plan to expand DoD EC/EDI contract awards for large purchases	DUSD(AR)							
<b>Recommendation 2-3</b>								
A. Develop standardized CAS transaction data sets	SPS PMO							
B. Develop standardized CAS data definitions for relational database	SPS PMO							
C. Convert existing CAS data	SPS PMO							
<b>Recommendation 2-4</b>								
A. Integrate SICM pilot with DSDC test of SPS shared data repository to demonstrate integration and accessibility of CAS data	SPS PMO							
<b>Recommendation 2-5</b>								
A. Give SPS PMO direct control over all team members. Dedicated ADP specialists/ functional personnel.	DDP							
B. Ensure SPO PMO team includes CAS field level personnel, buying activities, DFAS, and ADP specialists with relational database and current technology applications	SPS PMO							
C. Develop and execute plan to move MOCAS from hierarchical architecture to open systems and relational database by Oct 1996	SPS PMO							
D. Pilot SICM functionality at CONUS locations	SPS PMO							
E. Incorporate system features and attributes recommended by PAT, and functionality contained in ALERTS and SICM into SPS plan	SPS PMO							
F. Resolve barriers identified by PAT to implement SPS	SPS PMO							
G. Identify additional funding requirements to implement PAT recommendations	SPS PMO							
H. Provide total SPS funding	OSD(C)							

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## Metrics

- Increased customer satisfaction levels for the following areas:

- Program Integration
- Production Surveillance
- Subcontracting Management
- Contract Modifications
- Quality Compliance
- Contract Closeout

Source: Annual DCMC Customer FOCUS Survey Results

- Reduced cost per unit for the following Unit Cost Products/Services:

- Core Contract Administration
- Quality Assurance Services
- Program Integration Services
- Production Surveillance

Source: DCMC Performance Labor Accounting System

- Reduction in percentage and cost of non-value added (NVA) activities for processes selected for automation.

Source: DCMC Performance Labor Accounting System

- Improvement trend in DLAD 5000.4 process metrics for processes selected for automation.

Source: Annual DCMC Performance Plan

- Increase in CAS field level satisfaction:

Source: Survey of field level personnel

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CHAPTER THREE

**EARLY CONTRACT  
ADMINISTRATION  
ACTIVITIES**

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## **Introduction**

Department of Defense (DoD) contract administration responsibilities span much of the acquisition life-cycle, with the predominant effort devoted to actions after contract award. A specific focus in the charter of the Process Action Team (PAT) was to "Explore the potential for early involvement of field contract administration personnel in formulating acquisition strategy and subsequent pre-award activities." Pre-award activities include processes ranging from acquisition planning through solicitation preparation, proposal evaluation and source selection, to contract structuring. The thesis was that personnel responsible for managing contracts after award have skills, perspectives, and insights that would be beneficial during the pre-contractual decision stages. Contract Administration Services (CAS) personnel could help identify risks and prevent problems prior to contract award.

Accordingly, the PAT defined the tasking as 1) Determine whether early CAS involvement in the acquisition process is beneficial; 2) If so, identify where the benefits could be achieved; and 3) Develop an implementation plan. The team assumed that there would be a continuing need for essential post-award contract administration functions.

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## **Objectives**

The current Defense acquisition process tends to divide roles and responsibilities among requiring organizations, support organizations, acquiring activities, contract administration offices, and contractors. The process does not take full advantage of the synergistic effects of the various groups working together as an integrated team. Increased CAS, program office, and buying activity cooperation would improve acquisition strategies and tactics, proposal evaluations, source selections, negotiations, and contract structure.

The challenge for the PAT was to determine how to best bring the expertise of the individuals responsible for ensuring satisfactory contract performance closer to the front-end of the

acquisition process to achieve the following specific objectives:

- Improve the process for identifying and addressing acquisition risks prior to contract award, thereby reducing the need for contractor oversight.
- Foster teamwork and eliminate duplication of effort between acquiring activities and contract administration organizations.
- Reduce the costs and cycle time associated with awarding and administering defense contracts.

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## **Recommendations**

The PAT makes the following recommendations based upon the interviews, case studies, and analysis described in the discussion section.

- Establish as one of the core CAS missions, the responsibility to provide support early in the acquisition process. (Recommendation 3-1)
- Establish policies, procedures, and mechanisms to foster teaming of program offices, buying activities, and contract administration organizations. (Recommendation 3-2)
- Improve the understanding of and appreciation for the capabilities and requirements of all personnel involved in the acquisition process. (Recommendation 3-3)

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## **Discussion**

The PAT used brainstorming, interviews, focus groups, and surveys to elicit experiences, current practices and suggestions. The PAT examined system and commodity procurements, in both competitive and noncompetitive situations, to determine whether and how early CAS might be beneficial. The PAT reviewed acquisition process concerns such as delinquency rates, nonconforming products, and

contract changes to determine if early CAS assistance might reduce such post award problems. The team concluded that contract administration support prior to contract award would be advantageous. The method of support could vary from active involvement for major systems acquisitions to providing data for commodity procurements.

### *Interviews*

Program Office Perceptions. For the most part, program office personnel were receptive to the use of CAS capabilities early in the acquisition process. Several program offices had taken the initiative to establish early relationships with the contract administration organizations. Their experiences ranged from using CAS for evaluating potential sources, developing or reviewing solicitations, assessing contractor written proposals, and reviewing proposed contract clauses to participating in or conducting negotiations. The majority believed it is important to establish a strong interactive relationship with the CAS organizations, particularly in a down-sizing environment.

A common theme that the PAT heard was the use of CAS to help identify risks (solicitation, proposal, contractor performance, and contract) before decisions are made. The results of risk identification could be used by both the program office and CAS organization to focus on solving, rather than simply reporting, problem areas during contract and program execution. Program managers felt that CAS input would be of considerable value in assessing contractor performance, and cost and schedule realism. The program managers also believed contract administration personnel are too "checklist" oriented. They felt that contract administration personnel should focus on risk management and problem solving rather than strict "contract compliance".

The program managers related numerous rewarding experiences using contract administration support early in acquisition. They discussed high competencies, strong dedication, and mission focus. There were also some disquieting program office experiences regarding early contract administration participation. The PAT heard several anecdotes about attempts to get CAS support prior to contract award, only to be informed by the local contract administration office that "it's not my job".



Program managers raised certain "mechanical" issues regarding how to obtain contract administration support prior to contract award. In competitive acquisitions, before a specific contractor is selected, some program managers did not know who to call for assistance.

Readiness Item and Commodity Manager Perceptions.

Individuals responsible for acquiring spare and repair parts and consumable items provided us with a cloudier picture of early CAS participation. Commodity item personnel addressed the volume, short time-frames and repetitive nature of commodity procurements, and the rules governing commodity contracting. Their attention was focused on late deliveries, poor quality products, and diminishing sources of supply.

Commodity personnel generally believed that contract administration would help them best before award by providing timely, current, and reliable data on contractor performance and risk. They felt that contract administration expertise could assist in the development of first article test requirements, quality assurance criteria, and realistic delivery schedules. They perceived that contract administration expertise could be used to conduct more comprehensive market research on commercial items, to perform industrial capability analysis, and to prepare industrial lead-time forecasts. The commodity community generally did not know who to contact for early contract administration assistance.

Senior Management Perceptions. The majority of senior managers believed that the early involvement of the contract administration organization would foster teamwork, strengthen post-award activities and improve the overall acquisition process. There were differences of opinion regarding whether participation should be a "push" (e.g., "here's what CAS can offer") or "pull" arrangement (e.g., CAS personnel would be "expected" to be involved). The majority agreed that the timing, extent, and type of early contract administration support should be tailored to the specific procurement circumstances. They accept that CAS, program office and buying activity perceptions (and cultures) need to be changed.

The DCMC senior leaders expressed their commitment to improving the linkages to program offices and buying offices, especially prior to award. While they recognize the potential

resourcing cost of supporting pre-contractual activities, they believe that a job done right before contract award will reduce post-award efforts.

While most senior Military Department and DLA acquisition managers were supportive of early CAS personnel involvement, they were also concerned that essential post-award CAS functions not be compromised.

Commercial Contractor Practices. The PAT interviewed Ford Motor Co., Delta Airlines, and IBM representatives, and personnel from Dupont, Corning Corp. and Cummins Engine (three companies engaged in both commercial and military business) to identify contract administration methods utilized in the commercial world. The common factors among the corporations are working cooperatively with suppliers prior to contract award, establishing long-term relationships, and promoting over-all effective business performance. Their investment in these areas reduces the need for post award oversight. In evaluating potential suppliers, the companies considered quality, cost, delivery, technology, administration, and attitude. Once suppliers were selected, the contractor and the suppliers worked together to clarify requirements and mitigate risks. Rather than maintaining a separate CAS staff, the companies use multifunctional teams throughout the procurement process. The commercial companies emphasize a close relationship with suppliers during "pre-award" to ensure the latter's successful performance.

The individuals the PAT interviewed were reluctant to suggest specific changes to DoD acquisition processes. Nevertheless, the effort which commercial companies put into the identification of quality suppliers and working with them throughout the process is commensurate with the purposes of early CAS.

### *Case studies*

The studies collected in Attachment 3-1 illustrate where non-traditional CAS support has been provided prior to award. They are drawn from the experiences provided to the team during our research and data reviews. The early CAS support varies widely both in the type of acquisition involved and assistance provided. Coupled with the interview results, the

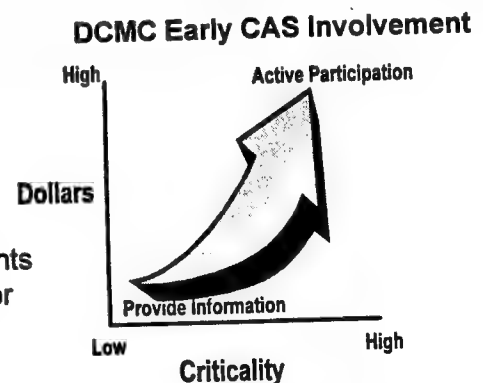
case studies provide the clearest evidence that CAS support early in acquisition is beneficial.

### *Conclusions*

While there are fundamental differences in applying early CAS support to major systems acquisitions, and to procurements of commodity/readiness items, minor systems and subsystems, our conclusion is that significant benefits may be gained from greater participation of contract administration personnel during the pre-contractual stages of the acquisition process. Accordingly, the PAT recommends that DoD establish contract administration support during the pre-contractual acquisition phase as a basic mission responsibility.

Program offices and buying activities traditionally perform pre-contractual activities without the benefit of contract administration perspectives. There are a variety of reasons for this, including the belief that CAS only applies to post-award processes, lack of familiarity with CAS capabilities, poor experiences with CAS, and not knowing who to contact. The PAT recommends that acquisition instructions incorporate guidance regarding the application of contract administration expertise during pre-contractual activities. A "sliding-scale" of CAS support could be established to reflect the factors which influence the degree of participation. It would distinguish in both type and extent of CAS precontractual support between the large volume of low dollar value procurements and the high criticality or higher dollar value low volume acquisitions.

Similar to early CAS involvement, other organizations such as Defense Contract Audit Agency (DCAA) and the Office of Assistant Inspector General for Inspections, Program Evaluations (which is the consulting arm of the Inspector General) should be able to contribute early in the acquisition process.



Successful teaming requires that team members appreciate the roles and responsibilities of their counterparts. Program offices, buying commands, and CAS organizations each employ contracting officers, engineers, manufacturing specialists, pricing specialists, quality assurance personnel and many others. Despite this, individual specialists in one organization understand their roles and needs but have limited appreciation of the requirements of their counterparts. The PAT recommends a combination of actions to improve the understanding and appreciation for the requirements and capabilities of all personnel involved in the acquisition process. These actions include familiarization training for DCMC personnel on the pre-award process, the development of a guidebook for program offices and buying activities on CAS pre-award support capabilities, an exchange program between program offices/buying activities and CAS organizations, and a senior-level forum to share experiences and plans.

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## **Comparison of Effects**

### ***Benefits***

- Improved contract quality resulting in reduction of the number of contract modifications, waivers, deviations, and engineering change proposals.
- Improved risk assessments in evaluating potential suppliers.
- Reduced procurement acquisition lead times.
- Reduced oversight.

### ***Disadvantages***

- Increased CAS pre-contractual support will require an investment of resources.
- Integrated pre-contractual teaming may result in a short-term productivity loss.

- Post award CAS functions may suffer.

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## Risk Management

Ultimately, early CAS should reduce the post-award problems currently experienced, thus reducing the level of post award effort. Until such time as this pay-back is realized, post award CAS functions may suffer where there is a shift of CAS assets from the post-award functions to support early contract administration efforts. Any such risk is reduced where there is an increase in overall resources provided to CAS organizations.

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## Implementation Plan

*Establish as one of the core CAS missions, the responsibility to provide support early in the acquisition process.  
(Recommendation 3-1)*

The Director of Defense Procurement amend DFARS 242.302(a), Contract Administration Functions, to establish CAS support during pre-contractual phases as a new contract administration responsibility.

**DFARS 242.302(a)  
(Imp. Task 3-1A)**

**Add new DFARS 242.302(a)(68). Proposed language is as follows:**

Add: "Support program offices and buying activities in precontractual efforts leading to a solicitation or award."

Early CAS support is not required by the FAR or DFARS, and until recently, was not addressed in contract administration policies and procedures. Buying activities and program offices indicate there are wide-spread perceptions that early CAS support is a discretionary service by the contract administration organizations. Inconsistent responses by contract administration organizations to requests for

precontractual assistance have nourished this perception. Success in obtaining early CAS support has been more dependent upon personal relationships and personalities than any other factor. Federal Acquisition Regulation (FAR) Part 42, Contract Administration, and DoD FAR Supplement (DFARS) Part 242 provide the regulatory foundation for CAS. These regulations need to identify the CAS responsibility to support early acquisition actions.

*Establish policies, procedures, and mechanisms to foster teaming of program offices, buying activities, and contract administration organizations.  
(Recommendation 3-2)*

**Director of Defense Procurement change DFARS 207.104, 207.105, 209.103, and 215.605, and the Under Secretary of Defense (Acquisition and Technology) revise DoD Instruction (DoDI) 5000.2 to consider CAS early in the acquisition cycle, and Component Acquisition Executives (CAEs) provide access to acquisition planning information.**

***FAR Part 7***

FAR Part 7, Acquisition Planning, and DFARS 207 provide policy and procedures to plan and manage an acquisition. Current clauses neither include nor exclude contract administration as an element of consideration in the planning and preparation of a contract. In part, the definition under acquisition planning states that "the efforts of all personnel responsible for an acquisition are coordinated and integrated...". The PAT concluded that DFARS language to specifically include CAS as part of the acquisition planning process is required. The PAT understands that, in sole source situations, coordination would most likely involve a specific CAO. In a competitive environment, where the particular CAO will not be known, acquisition planning information and CAS support should be coordinated with DCMC headquarters. Similarly, the PAT believes that the cost of performing CAS may vary based on contractor performance history and that such cost should be considered in proposal evaluations.

**DFARS 207.104(b)**  
**(Imp. Task 3-2A)**

**Add new DFARS 207.104(b), General procedures.**  
**Proposed language is as follows:**

Add: "The planner should forward the requirements information to the contract administration organization when assistance in the identification of potential sources of supply is necessary, when an existing contract is being modified or resolicited, or when contract administration resource requirements will be affected."

**DFARS 207.105**  
**(Imp. Task 3-2B)**

**Revise DFARS 207.105, Content of written acquisition plans. Proposed language is as follows:**

Add new sentence to opening paragraph: "It is incumbent upon this person or office to coordinate the plan with all those who have a responsibility for the development, management, or administration of the acquisition. The acquisition plan should be provided to the contract administration organization for their review to facilitate resource allocation and planning for the evaluation, identification, and management of contractor performance risk."

**Add new subsection DFARS 207.105 (b), Contents of written acquisition plans. Proposed language is as follows:**

Add: "(20) Contract administration. Discuss the level of government administration anticipated or currently performed and any change proposed by the contract administration office."

**FAR Part 9**

FAR Part 9, Contractor Qualifications, and DFARS 209 prescribes policies, standards, and procedures pertaining to the responsibility of the prospective contractor. Current acquisition policy requires the consideration of past performance on all offerors. Evaluation of an offeror's proposal, his past performance and a pre-award survey may be used to identify the risk of awarding a contract to a specific offeror but may not preclude the award. The greater the risk, the greater the resources required for administration and the

greater the likelihood of delayed deliveries, non-conforming parts, and increased costs. Early identification or mitigation of these risks will produce a more successful acquisition.

***DFARS 209.103(c)***  
***(Imp Task 3-2C)***

**Add new DFARS Part 209.103 (c), Policy. Proposed language is as follows:**

Add: "The additional cost of contract administration and audit due to a contractor's performance risk may be considered in evaluating the contractor's price."

***FAR Part 15***

FAR Part 15, Contracting by Negotiation, and DFARS 215 prescribes policies and procedures governing contracting for supplies and services by negotiation. FAR Subpart 15.605, Evaluation factors, states that the factors that will be considered in evaluating proposals should be tailored to each acquisition and include only those factors that will have an impact on the source selection decision. FAR 9.103(c) allows the government to consider the cost of administration but does not specifically connect it with the contractor's performance risk or past performance. Likewise, the evaluation factors in FAR Part 15.605 do not reflect this cost as a factor and neither clause addresses potential savings to the government as a result of superior past performance or minimal performance risk. Having procurement officials consider estimated contract administration costs or savings as a result of a contractor's past performance or performance risk will integrate contract administration early in an acquisition as well as refine the process by which the total cost to the government is determined.

***DFARS 215.605(b)***  
***(Imp. Task 3-2D)***

**Add to DFARS 215.605 (b), Evaluation factors. Proposed language is as follows:**

Add: "The costs or savings related to contract administration may be considered when the contractor's past performance or performance risk is likely to result in significant costs or savings."



***DoDI 5000.2  
(Imp. Task 3-2E)***

**Revise DoDI 5000.2 to include CAS responsibilities.**

DoDI 5000.2 establishes the over-arching guidance for acquiring and managing Defense systems and programs. This Instruction contains only two vague references to contract administration. For contract administration to be considered an integral member of the acquisition process for Defense systems and equipment, CAS needs to be identified and integrated into the basic instructions governing acquisition management. This is especially true during the acquisition planning and source selection processes. The CAS-PAT recognizes that there are several on-going efforts which will likely require changes to DoDI 5000.2. DCMC should participate on the team which will rewrite the Defense acquisition management policies and procedures.

***Early CAS Planning  
(Imp. Task 3-2F)***

**Component Acquisition Executives (CAEs) establish mechanisms to share advance acquisition planning information between buying activities, program offices and DCMC.**

DCMC uses historical workload data, budget estimates, and Defense procurement projections to estimate DCMC resource requirements for traditional CAS functions. Because early CAS support is a new mission area, there is limited workload history and only informal procedures available to anticipate customer "demand rates".

To better ensure satisfactory DCMC support when requested, "linkages" between the buying activities/program offices acquisition planning efforts and DCMC need to be improved. The processes involved should help identify potential early CAS opportunities so that workload and resource projections can be made. They should also facilitate integrated teaming for acquisitions where CAS will provide pre-contractual assistance. Planning information will be used, in part, to determine specific support requirements, e.g., quantities, skills, experience, credentials, clearances, duty location, and

funding. Although support requirements may vary for each program, general administrative and logistical arrangements can be established up-front between the buying activities, program offices and CAS organizations.

***Liaison Access To  
Procurement Planning  
Process  
(Imp. Task 3-2G)***

**CAEs ensure that buying activities give consideration to the DCMC liaison officer as a member of their procurement planning committees and provide access to the acquisition planning process.**

DCMC is in the process of locating a liaison officer at major buying activities. One of the liaison's functions is to inform the buying activity about CAS capabilities and opportunities, and provide support in consideration of early CAS candidates. Inherent in this responsibility is that the liaison officer inform DCMC of on-going activities or plans that may affect a contract administration office. Such activities include planned procurements or significant contract modifications. The liaison officer must have access to the procurement planning process to accomplish these responsibilities.

***Improve understanding and  
appreciation for the  
capabilities and requirements  
of all personnel involved in  
the acquisition process.  
(Recommendation 3-3)***

**Commander, DCMC provide early CAS familiarization training to CAS personnel and prepare and distribute an early CAS guide for use by program offices and buying activities. Additionally, CAEs establish an exchange program and hold an early CAS forum.**

***Familiarization Training  
(Imp. Task 3-3A)***

**Commander, DCMC provide familiarization training to contract administration personnel concerning early CAS responsibilities.**

DLA Directive (DLAD) 5000.4, Contract Management, establishes DCMC policies for performing CAS. Part II-10, Early Contract Administration Services Involvement, identifies roles and responsibilities of the DCMC Headquarters, Districts, and CAOs in planning and supporting early CAS efforts.

Early acquisition support by contract administration personnel represents an important new mission area. Early CAS experiences are limited. It is critical that CAS personnel understand the reasons for the initiative, how to facilitate support arrangements, lessons learned from previous efforts, and likely roles and responsibilities.

***Exchange Program  
(Imp. Task 3-3B)***

**CAEs establish a program that exchanges CAS personnel with program office and buying activity personnel.**

Greater interaction of CAS organizations with buying activities and program offices will increase the appreciation of the interests, objectives and expertise of those involved in traditional procurement activities. Personnel from buying activities and program offices should be exposed to contract administration processes for the same reason. A training program which promotes interaction will increase the likelihood that the full range of contract requirements will be successfully executed. An exchange program is an effective method for promoting teaming and breaking down barriers between organizations.

***Early CAS Guide  
(Imp. Task 3-3C)***

**Commander, DCMC prepare and distribute a guide which describes lessons learned, early CAS objectives, capabilities, skills, points of contact, and procedures for requesting CAS support.**

To ensure that program offices and buying activities understand what types of services are available and how to request assistance, and see how the different services have been applied in prior endeavors, an early CAS guide needs to be developed and disseminated.

***Early CAS Forum  
(Imp. Task 3-3D)***

**CAEs establish a forum or use an existing forum to address systemic problem areas, share success stories, plan for future requirements, and discuss new initiatives, policies or procedures.**

The successful application of early CAS is expected to improve solicitation development, source selection, and contract performance. Strategies, techniques and approaches which evolve out of certain situations may represent "best business practices" with DoD-wide application. But such experiences must be shared to be of value to the wider audience. An early CAS forum will both sustain the initiative and promote continuous improvement of the acquisition process. Similarly, efforts by the Procurement Process Action Team are currently underway to ensure that such early CAS success stories and best business practices are collected in a Procurement Wisdom System. Appropriate action should be taken by forum participants to submit early CAS materials for consideration when this system becomes available to all the Military Departments and Defense Agencies.

IMPLEMENTATION PLAN SUMMARY		
Task #	Recommendation/Implementing Task *	OPR
	<i>Establish as one of the core CAS missions, the responsibility to provide support early in the acquisition process. (Recommendation 3-1)</i>	
3-1A	Add new DFARS 242.302(a)(68) to make early CAS a core responsibility	DDP
	<i>Establish policies, procedures, and mechanisms to foster teaming of program offices, buying activities, and contract administration organizations. (Recommendation 3-2)</i>	
3-2A	Add new DFARS 207.104(b)	DDP
3-2B	Revise DFARS 207.105 and add 207.105(b)(20)	DDP
3-2C	Add new DFARS 209.103(c)	DDP
3-2D	Add to DFARS 215.605(b)	DDP
3-2E	Revise DoDI 5000.2 to include CAS responsibilities	USD(A&T)
3-2F	Establish mechanism to share acquisition planning information	CAEs
3-2G	Provide DCMC liaisons access to acquisition plans	CAEs

	<i>Improve the understanding of and appreciation for the capabilities and requirements of all personnel involved in the acquisition process. (Recommendation 3-3)</i>	
3-3A	Provide familiarization training	DCMC
3-3B	Establish program office/buying office/CAS exchange program	CAEs
3-3C	Prepare and distribute Early CAS Guide	DCMC
3-3D	Establish a forum to address early CAS experiences	CAEs

\* Proposed implementing memoranda to Office of Primary Responsibility (OPR) are at Attachment 3-2.

## Milestones

The milestone chart depicts the number of quarters following approval of the PAT report for completion of the implementing activities.

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 5
<b>Implementing Strategy</b>					
<b>Amend DFARS</b>					
<b>Amend DoDI 5000.2</b>					
<b>DCMC Liaison Access</b>					
<b>Exchange Program</b>					
Develop/Implement					
Perform Exchange					
<b>Familiarization Training</b>					
Develop Training					
Train Workforce					
<b>Develop/Distribute Guidebook</b>					
<b>Early CAS Planning</b>					
<b>Early CAS Forum</b>					
Establish Mechanism					
Forum					

## Resource Requirements

Imp. Task #	Implementing Task	Year 1	Year 2
		Work Years	Work Years
		Non-Labor \$	Non-Labor \$
3-1A & 3-2A-E	Institutionalize Early CAS	50	100
		\$1,500K	\$3,000K
3-2F	Early CAS Planning	3	3
		\$25K	\$25K
3-2G	Liaison Access to Acquisition Planning info.	0	0
		\$0	\$0
3-3A	Familiarization Training	1.5	0
		\$195K	\$0
3-3B	Exchange Program	0	0
		\$600K	\$1,200K
3-3C	Early CAS Guide	0.5	0
		\$60K	\$0
3-3D	Early CAS Forum	0.5	0.5
		\$30K	\$30K
	Total	55.5 WY	103.5 WY
		\$2,410K	\$4,255K

### *Institutionalize Early CAS (Imp. Tasks 3-1A & 3-2A-E)*

The resource estimates concerning the recommended changes to the DFARS and DoDI 5000.2 include the costs associated with physically supporting the anticipated demand for pre-contractual CAS assistance. They do not include the costs of preparing or coordinating the changes themselves.

The workload estimate the PAT used is based on trends from recent DCMC experience. During FY 94, DCMC completed five early CAS actions and had ten in process. It is anticipated that DCMC would participate in 20 actions in FY 95. The PAT estimates that DCMC would get involved in 50 early CAS arrangements during FY 96 ("Year One"), rising to and leveling off at 100 in FY 97 ("Year Two") and beyond.

The early CAS efforts completed to date and in process vary considerably in number of personnel involved, duration of assistance, place of performance, and extent of travel. On average, however, three full-time individuals were applied to each early CAS request. Typical duration for each effort was four months total. Approximately \$10,000 TDY per individual for each request was expended.

***Early CAS Planning  
(Imp. Task 3-2F)***

This resource estimate considers the costs to the Military Departments and DCMC to identify early CAS candidates, facilitate support arrangements, and address management concerns, e.g., management and budget data, briefings, feedback, and lessons learned. It also considers the expenses to identify resourcing and logistical arrangements, e.g., specific skills, number of individuals, and administrative support. The PAT anticipates that three work-years across DoD will be required to support long-range planning for both 50 early contract administration assistance efforts in FY 96 and 100 in FY 97. TDY expenses are estimated at \$25,000.

***DCMC Liaison  
(Imp. Task 3-2G)***

DCMC has already started the program to establish a liaison officer at each major buying activity. Fifteen such positions have been identified. The PAT does not anticipate additional resource requirements or funding for the liaisons specifically to incorporate early CAS considerations as part of their responsibilities.

***Familiarization Training  
(Imp. Task 3-3A)***

The PAT concluded that training concerning early CAS responsibilities should be conducted at all DCMC field offices. Based upon the types and duration of training provided by

DCMC in similar situations, it was determined that a training session up to four hours long would be appropriate. The cost to develop a four-hour session ranges from \$30,000-\$50,000. The PAT used \$40,000 for the resource estimate. The PAT estimated 1/2 work-year to support course development, and one work-year to provide the familiarization training to approximately 100 field offices. Because of the geographical diversity of DCMC offices and various methods by which the training could be presented, the range of TDY costs is \$25,000-\$50,000. The PAT used \$35,000.

In addition to formal training, the team recommends that a video presentation be made to present basic early CAS concepts and to facilitate refresher training. Prior videotape productions have ranged from \$2,000-\$5,000 per minute, with differences based on such factors as the extent of script-writing and the use of professional services. Typical videotape "familiarization" presentations range from 15-30 minutes. For the early CAS videotape, the PAT used \$4,000 per minute for a 30 minute tape. Total costs to develop and distribute the videotapes are estimated at \$120,000.

*Exchange Program  
(Imp. Task 3-3B)*

The PAT envisions an on-going program exchanging individuals working in program offices and buying activities with those in contract administration organizations for a period of four to six months. The resources required to implement such a program primarily would be in travel and TDY. To minimize these expenses, the exchange would involve, wherever practical, personnel within the same geographical area.

The PAT estimates that approximately 100 individuals would be able to participate in the program annually, with half being able to commute locally. The PAT estimates TDY expenses for the 50 traveling employees to be \$150.00 per employee per day, and travel expenses to be \$1,000 per employee for a five-month period.

The basic resource estimate is \$1,175,000. An additional \$25,000 was included to address the costs of local travel and program administration. Since the majority of effort during the first six months will be in establishing the exchange program,



only half of the total resource estimate was allocated to Year One.

***Early CAS Guide  
(Imp. Task 3-3C)***

In estimating the costs for the Early CAS Guide, the PAT reviewed handbooks, directories, and similar publications prepared by DCMC. It appears that the guide would be approximately 20 pages, and that 20,000 copies initially would be provided to buying activities, program offices, and contract administration organizations. The PAT estimated that development efforts would take one-half work year, and printing/distribution expenses would be \$60,000.

***Early CAS Forum  
(Imp. Task 3-3D)***

For the purpose of estimating resources, the PAT anticipated approximately 40 senior-level officials from the Military Departments and DLA meeting collectively to address systemic problems, share success stories, plan for future requirements, and discuss new initiatives. The DoD-wide estimate to host, administratively support, and travel to the forum is \$30,000. The PAT estimates 1/2 work-year required to provide support. The use of existing forums was not considered in developing the estimate.

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## **Metrics**

The PAT looked at measurement methods from three perspectives. First, there are metrics that simply record whether an event happened or not ("go/no-go" metrics). Second, there are measures to determine the extent to which an action is taking place ("activity" metrics). Finally, there are measurements to evaluate whether actions are achieving the desired results ("effectiveness" metrics). Each metric has a place in assessing the implementation of early CAS. However, the mark of full success will be when the function is so well established that it has become, where appropriate, standard acquisition procedure. The PAT believes that this should be the case within three years and, therefore, recommends this as the defined period for data collection.

*Go/No-Go metrics determine whether the implementing strategies occurred by the suggested milestones.*

Implementing Strategy	Complete
DFARS Changed?	Yes/No
DoDI 5000.2 Revised?	Yes/No
Planning Mechanism in Place?	Yes/No
Exchange Program Developed?	Yes/No
Familiarization Training Developed?	Yes/No
Guide Developed/Distributed?	Yes/No
CAS Forum Conducted?	Yes/No

*Activity metrics determine the extent to which early CAS is implemented.*

Activity metrics are useful for measuring the "growth rate" of early CAS, that is, the extent to which CAS assistance prior to award is requested and provided. They are also useful for assessing the workload impact of the activity. Activity metrics do not directly assess the quality of the service. By inference, however, they show the value of pre-contractual CAS efforts. If program offices and buying activities perceive a value to precontractual CAS support, they will increase their "demand" for early CAS assistance.

The PAT is mindful of the frequent burden of data collection. For the data shown below, the PAT has indicated what should be provided by the program offices and buying activities, what should be provided by DCMC, and what should be furnished by both. The PAT has not recommended a frequency or method for reporting the information, believing this is best left to the Military Departments and Defense Agencies.

Activity Metrics	Data Supplier
# Early CAS requests during reporting period	DCMC & Buying/ Program Offices
# Commitments* during reporting period	DCMC
# In-process actions during reporting period	DCMC
# Actions completed during reporting period	DCMC
Resources applied during reporting period	DCMC
# Individuals completing Exchange Program during reporting period	DCMC & Buying/ Program Offices
% of CAOs receiving training during reporting period	DCMC

\* The term "commitment" means an agreement to use or provide early CAS assistance which has not yet started.

*Effectiveness metrics determine the "success" of early CAS support.*

The PAT examined various approaches for assessing the degree to which early CAS involvement in the acquisition process was achieving the desired results. The PAT reviewed the "existing state of affairs" to determine whether a measurement standard could be derived from the issues identified. For example, the PAT examined the possibility of establishing a control group(s) to compare the effects of CAS participation prior to award with traditional approaches. The PAT also examined a benchmarking approach where one could measure the effects of CAS precontractual involvement with prior experiences for the same acquisition and contractor. Both ideas were rejected for the reason that there were too many variables to make the comparison credible. The PAT considered measuring the number of contract technical changes, e.g., ECPs, waivers, and deviations, issued for contracts which received early CAS support as compared with

historical averages. Similarly, the PAT considered comparing delinquency rates for contracts where CAS was applied prior to award against DCMC averages. Although it is unlikely that any reduction in waivers, deviations, ECPs, and delinquencies can be attributed solely to early CAS activities, since other process changes will also contribute, monitoring of these events should continue. While some analysis will be required, the PAT believes that the number of such postaward problems will decrease as early CAS participation increases.

The PAT concluded that the most credible measurement approach, and probably the least intrusive, would involve customer feedback obtained shortly after a support action was completed. The PAT therefore recommends that a survey form, similar to that found below, be developed and used for every early CAS support action. Feedback should be obtained from a variety of program office, buying activity, and contract administration personnel who were impacted by the specific early CAS activity.

<b>Early CAS Support Evaluation Survey</b>					
	<b>Significant Value</b>	<b>Moderate Value</b>	<b>Little Value</b>	<b>Undesirable Impact</b>	<b>Not Applicable</b>
<b>Acquisition Strategy/Planning</b>					
<b>Solicitation Preparation</b>					
<b>Proposal Evaluation</b>					
<b>Source/Supplier Evaluation</b>					
<b>Contract Structure</b>					
<b>Other (Define)</b>					

## **ATTACHMENT 3-1 Early CAS Case Studies**

### **1. Source Selection for the Joint Direct Attack Munitions (JDAM) Program.**

The Joint Direct Attack Munitions (JDAM) program is an Acquisition Category (ACAT I) program to modify inventory bombs with guidance, control, and built-in navigational capabilities. It is an acquisition reform pilot program with significant quantity potential and considerable competitive interest. Affordability was the primary source selection factor. In addition to traditional proposal and performance evaluation approaches, the JDAM Performance Risk Assessment Group (PRAG) chartered three teams to conduct first-hand assessments on the performance risks of all prime offerors and critical subcontractors. DCMC was requested to participate actively during the Engineering and Manufacturing Development phase of the source selection.

DCMC personnel from headquarters and the field supported two of the three "on-site evaluation" PRAG teams, leading the "Managing for Affordability" risk assessment effort and supporting the "Software" risk assessment team. DCMC expertise in performing the risk assessments included engineering, software, quality assurance, and contracting. The intensive site visits resulted in detailed evaluation reports provided on nearly two dozen facilities nationwide. At the conclusion of the source selection, Mr. Terry Little, the JDAM Program Director, stated that DCMC provided "great comparative insights ... beyond a system program office's ability to evaluate". The close cooperative relationship early on was mutually beneficial in identifying risks and laying out the foundation for a continued teaming relationship.

### **2. Acquisition Planning on the Air Force's C-130J.**

The C-130J program is a non-competitive major upgrade to the Air Force's Hercules transport program. On this program, the prime contractor and the Air Force intend to increase the use of commercial business practices. This is a significant departure from traditional DoD procurement techniques. Throughout the acquisition planning process, the Air Force and DPRO Lockheed, GA, addressed the benefits, risks, and impacts associated with adopting the proposed acquisition strategy. The DPRO and DCMC leadership were invited to participate during the senior Air Force acquisition management review of the C-130J.

As a result of the collaborative efforts, the Air Force gained a more complete understanding of the risks and impacts of their decisions on the entire acquisition community. DCMC was able to better understand the specific acquisition objectives and plans for the C-130J, thereby having a much better appreciation for support requirements and resourcing needs well in advance of the actual contract award.

### **3. Acquisition Planning and RFP preparation on the Air Force's NonDevelopment Airlift Aircraft.**

The NonDevelopment Airlift Aircraft (NDAA) is an Air Force ACAT ID program to acquire a commercial or commercial-derivative alternative aircraft to satisfy military transport requirements. The acquisition strategy calls for applying commercial business practices to the maximum extent. The NDAA is currently in the pre-Request for Proposals (RFP) stages and significant competition is anticipated. Recently, NDAA was officially designated an Acquisition Reform Pilot Program.

The unique nature of the program and its acquisition strategy will have a direct impact on contract administration efforts, most likely in the areas of payment, contractor pricing, and product acceptance. To ensure that the contract administration community understood and was in harmony with NDAA program objectives, DCMC was invited to participate in the acquisition planning and RFP development efforts. Because of the competitive nature of the program, relationships were established between the program director and DCMC headquarters to provide early CAS support. DCMC attended the NDAA Acquisition Strategy Panel and Tactical Roundtable meetings. Contract administration personnel have been participating in the government-industry RFP Working Group meetings developing the draft RFP. The dialogue and teaming are scheduled to continue throughout the acquisition. The NDAA program director and DCMC both believe that the early cooperative relationships will reduce down-stream acquisition problems.

### **4. Proposal Evaluation and Negotiation Support on the Army's T-700 Engine.**

US Army Aviation and Troop Command (ATCOM) assembled a Should Cost Team to evaluate and negotiate General Electric's \$822 million proposal for a multi-year contract for up to 1,275 T-700 series turbine engines. Traditionally, ATCOM personnel would have independently developed the RFP, performed proposal analysis, and conducted negotiations. Cost proposal analysis support would have been requested from and provided by the DPRO and DCAA offices at GE, Lynn, MA. on an ad hoc basis.

A different tactic was adopted for the T-700 engine procurement. The cognizant DPRO/DCAA offices were accepted as full-time participants on ATCOM's "integrated DoD should cost team". CAS expertise was provided in all aspects of the proposal evaluation, in establishing the government's negotiation positions, and during the negotiations of both the contract price and the contract terms and conditions.

The cooperative relationship resulted in significant cost and acquisition cycle-time savings. The combined ATCOM/DPRO/DCAA team successfully negotiated a final contract price of \$671 million, a \$150 million savings from the contractor's original proposal. Historically, the acquisition cycle-time from proposal receipt to contract award for the T-700 engine requires 9 months. The team completed T-700 engine negotiations in 6 months. While the dollar and processing-time savings cannot be totally attributed to early CAS involvement, the integrated teaming approach was a significant contributor to the procurement success.

As a result of the efforts, Major General John S. Cowings, Commander, ATCOM, wrote to DLA stating, "I strongly endorse the cooperative method utilized for the acquisition and can assure you that ATCOM will continue to work with DPRO/DCAA to ensure that subsequent acquisitions are handled in a similarly cooperative manner".

#### **5. Navy Alpha Contracting Strategy on the LAMPS Block II Helicopter.**

The Navy's Light Airborne Multi-Purpose System (LAMPS) Block II Helicopter program is a major two-year engineering and manufacturing development effort. Alpha Contracting is a Naval Air Systems Command (NAVAIR) initiative to streamline acquisition by instituting early teaming between NAVAIR, DCMC, DCAA, and key contractors.

Alpha Contracting on the LAMPS Block II brought together the technical and contracting skills of NAVAIR, the DPROs at IBM Owego, NY and Sikorsky Aircraft, and the DCAA offices at those locations. The integrated Government team drafted the LAMPS Block II statement of work, agreed on proposed contract terms and conditions, established the program schedule, and prepared the RFP.

The Government team and the contractor worked together prior to issuance of the final RFP to better ensure a clear understanding of requirements. In evaluating the contractor's proposal, common data collection techniques, databases and spreadsheets were developed and used by all team members. Common report formats were used to minimize duplication of effort and facilitate communications.

The results of this effort were noteworthy. The LAMPS Block II contract was awarded using only pen and ink changes to the RFP. Historically, the total contracting cycle from RFP release through proposal submission and evaluation to contract award for this type of procurement takes well over 300 days. With Alpha Contracting, LAMPS Block II cycle time was reduced to 108 days. Of this cycle-time, only 73 days were required from receipt of proposals to award.

#### **6. Defense General Supply Center Corporate Contracting (buy response vice inventory) with Bell Helicopter.**

The Defense General Supply Center (DGSC), one of four DLA hardware centers, is responsible for acquiring a wide-range of commodities, including helicopter readiness items. Recently, DCMC and DGSC began a cooperative initiative to reduce supply and distribution costs and cycle times for helicopter parts. Historically, DGSC purchased and sent both military unique and commercial-type commodities to the DoD depot system.

Approximately 80% of Bell Helicopter parts acquired by DGSC are substantially similar to those provided by Bell for their commercial market. DPRO Bell was familiar with the company's military and commercial practices as well as DGSC's interests in improving responsiveness and reducing inventory investments. The DPRO recommended that DGSC use the company's commercial supply, distribution, and service network rather than inventory the parts themselves.

The DPRO served as a facilitator between Bell and DGSC in formulating the contracting arrangements. The helicopter parts support contract was recently awarded by DGSC.



## **ATTACHMENT 3-2 Implementing Letters**

### **Draft Memorandum**

**Memorandum for Commander DCMC**

**Subject: CAS PAT Report Recommendation - Familiarization Training and Early CAS Guide**

The Contract Administration Services (CAS) Process Action Team (PAT) studying contract administration reform recommended that early acquisition support by contract administration personnel be established as a new mission area. They have proposed appropriate changes to DFARS 242.302(a) to accomplish this. I agree with the recommendation and have requested the Director of Defense Procurement to make the necessary DFARS changes.

To support this responsibility the CAS PAT also recommended that DCMC provide early CAS familiarization training to CAS personnel and that DCMC develop and disseminate an early CAS Guide for use by program offices and buying activities. I agree with these recommendations.

Please provide a plan of action to implement these requirements no later than 60 days from date of this memorandum.

**Signature Block**  
**Under Secretary of Defense (Acquisition and Technology)**

## **Draft Memorandum**

**Memorandum for Director of Defense Procurement**

**Subject: Preparation of DFARS changes to facilitate implementation of early CAS**

The Contract Administration Services (CAS) Process Action Team (PAT) studying contract administration reform recommended that early acquisition support by contract administration personnel be established as a new mission area. They have proposed appropriate changes to DFARS to accomplish this. I agree with the recommendation and therefore request you take appropriate action to effect the necessary DFARS changes.

Please provide a plan of action to accomplish these changes no later than 60 days from date of this memorandum.

**Signature Block**  
**Under Secretary of Defense (Acquisition and Technology)**

## **Draft Memorandum**

**Memorandum for Component Acquisition Executives**

**Subject: Implementation of Early Contract Administration Services**

The Contract Administration Services (CAS) Process Action Team has explored the potential for CAS involvement early in the acquisition cycle. The PAT found that personnel responsible for managing contracts after award have skills, perspectives, and insights that would be beneficial during pre-contractual stages. I endorse that finding. The following specific recommendations require your attention:

1. Establish a mechanism to share advance acquisition planning information between your buying activities, program offices and DCMC.
2. Ensure that your buying activities give consideration to having the DCMC liaison officer as a member of their procurement planning committees and provide access to information networks for acquisition planning.
3. Establish a training program that exchanges CAS personnel with program office and buying activity personnel.
4. Establish a forum or use an existing forum to address systemic problem areas, share success stories, plan for future requirements, and discuss new initiatives, policies or procedures.

Please provide your implementation plan no later than 60 days after the date of this letter.

**Signature Block**  
**Under Secretary of Defense (Acquisition and Technology)**

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CHAPTER FOUR

# TECHNICAL REPRESENTATIVES

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## **Introduction**

Oversight of contractor performance at some contractor facilities is currently performed by both the Defense Contract Management Command (DCMC) and program management office technical representatives. Technical representatives include those personnel who perform program and technical support duties for the program management office, and functional personnel assigned to the contractor's facility to participate full-time on integrated product teams (IPTs) specified in development-type contracts. If a contract has been delegated to DCMC, program management office technical representatives are not to perform the contract administration services (CAS) functions identified in Federal Acquisition Regulation (FAR) subpart 42.302.

On September 29, 1994, the Department of Defense (DoD) Inspector General published Report No. 94-INS-12 on the Inspection of DCMC. The report contained a finding that technical representatives performed tasks that intersected and overlapped with those of the DCMC contract administration offices (CAOs). Both the CAOs and the technical representatives used the same data and reports to perform related analysis for ostensibly independent CAS and program management functions. The Inspector General recommended that the Under Secretary of Defense for Acquisition and Technology document the program support element of the DCMC mission in the Defense Federal Acquisition Regulation Supplement (DFARS). The Director, Defense Procurement, did not agree that the DFARS is the appropriate document in which to accomplish this action and referred the issue to the Process Action Team for Contract Administration Services (the PAT) to identify a vehicle, other than the DFARS, in which to document DCMC's program support mission.

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## **Objective**

Evaluate the Inspector General finding and recommendation, perform whatever fact finding is required, and make recommendations to eliminate duplication of effort in tasks performed by program management office technical representatives and CAOs.

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## Recommendations

### *Define Program Support Element of DCMC Mission*

DCMC's program support responsibility should be addressed in detail in DoD Instruction 5000.2 (Recommendation 4-1).

### *Agree on Contract Oversight Needs and Perspectives*

DoD Instruction 5000.2 and DLA Directive 5000.4 should be revised to require that program managers and DCMC CAOs jointly develop and approve program support plans for all major weapon systems contracts to ensure agreement on contract oversight needs and perspectives (Recommendation 4-2).

### *Conduct Review of Technical Representatives in Contractor Facilities*

The program offices and DCMC should jointly review the placement of technical representatives in contractor facilities to eliminate duplication of CAS effort with the CAO and to delegate CAS functions that should be performed by the CAO. Where duplication exists, the technical representatives should be eliminated (Recommendation 4-3).

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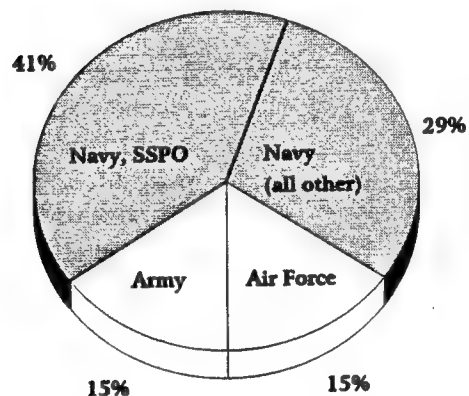
## Discussion

### *Finding in the 1994 DoD Inspector General Report*

According to the September 1994 Inspector General report, Army, Navy, and Air Force program management offices have about 460 technical representatives assigned full-time at prime contractor and major subcontractor facilities. The Army and Air Force have about 70 technical representatives each and the Navy has about 320 technical representatives (70 percent of the total). One program management office, the Navy Strategic Systems Program Office (SSPO), had:

- 185 technical representatives (about 40 percent of the total DoD technical representatives).
- 168 of its technical representatives assigned to 6 contractor facilities where DCMC has a resident CAO.
- From 14 to 69 technical representatives assigned to each of the 6 contractor facilities.

**Distribution of  
Technical Representatives**  
Full Time - September 1994



The Inspector General observed that both the SSPO technical representatives and CAO personnel used the same contractor reports to analyze contractor performance and their reviews of contractor performance overlapped. The Inspector General concluded that DCMC's program support mission should be clearly defined in the DFARS to avoid duplication of effort, to restrict accretion of responsibilities by DCMC and program management offices, and to ensure a single face to industry on CAS and related functions.



***Navy Rationale for SSPO  
Technical Representatives***

Representatives of the Office of the Assistant Secretary of the Navy (Research, Development and Acquisition) and the SSPO who met with the PAT stated that:

- They did not have any negative comments regarding DCMC's technical support to program offices, but SSPO program managers and DCMC had different degrees of dedication to a program.
- Navy program offices considered technical representatives to be an extension of the program office who had an "ownership" in the program. Program managers often believe that others could not provide adequate technical oversight of contractor performance on their programs unless they were working for the program office. DCMC CAOs are usually responsible for several programs at a contractor facility and DCMC moves its people between contractors.
- It is the program manager's choice whether to have technical representatives at a contractor facility or to rely on DCMC for technical oversight.
- An April 1988 House Armed Services Committee report and a September 1990 General Accounting Office report concluded that program office technical representatives at contractor facilities contributed to the success of the Navy's Fleet Ballistic Missile Program.
- SSPO staffing levels, which includes technical representatives, are based on Secretary of Defense and Secretary of Navy mission requirements through FY 2000.

***DCMC Perspectives***

The PAT also discussed the assignment of program management office technical representatives with several DCMC CAO Commanders and Headquarters officials. Some of their comments were:

- DCMC is committed to providing excellent service to its customers. This commitment extends to on-site technical representation for the program manager. The program support teams that DCMC have in place now are a de facto extension of the program office. Service, not control, is the issue.
- Program offices who have had unsatisfactory support from DCMC or its predecessor Defense Contract Administration Services organization in the past maintain a perception that DCMC cannot support them adequately. When CAO support is unacceptable, program offices should promptly notify DCMC headquarters so the problem can be fixed rather than work around the unacceptable support.
- DCMC cannot earn the trust and respect of some program managers if they continue to use technical representatives for contractor oversight.
- In an era of downsizing and budget reductions, overlap and duplication between the tasks performed by technical representatives should be eliminated.
- The positioning of technical representatives at a contractor facility should be the exception, such as where their full-time presence in the facility is necessary to fulfill the contractual requirements of a government/contractor Integrated Program Team.

***DCMC's program support responsibility should be addressed in detail in DoD Instruction 5000.2 (Recommendation 4-1)***

DoD Instruction 5000.2, "Defense Acquisition Management Policies and Procedures," contains no guidance on the program and technical support for DoD systems acquisitions provided by DCMC. At each CAO administering major system acquisition contracts, DCMC has formed a program support team led by a program integrator and comprised of technical specialists. These program support teams were formed to support program offices regarding program reviews, program status, program performance, and actual or anticipated program problems. On the F-22 Advanced Tactical Fighter and other programs, DCMC CAO personnel work in partnership with program office and contractor representatives on IPTs to achieve program success. DoD Instruction 5000.2 should discuss DCMC's program support responsibility so program office personnel have an understanding of this CAO

role in the acquisition process for major systems and DCMC's relationship to a program office.

***DFARS 242.74 authorizes program managers to assign technical representatives at a contractor facility***

DFARS subpart 242.74 authorizes program managers to assign technical representatives to perform non-CAS technical duties and to provide liaison, guidance, and assistance on systems and programs at a contractor facility. When the program manager determines that a technical representative is needed at a contractor facility, the DFARS requires that the program manager notify the CAO in a letter of intent of the technical representative's assignment, delegated authority, and support needs from the CAO. DFARS 242.7401(a) provides that the final decision on the assignment and number of technical representatives remains with the program manager. DFARS subpart 242.74 originated in 1991 with Defense Acquisition Regulatory (DAR) Case 90-450 and the cancellation of DoD Instruction 4105.64, "Technical Representation at Contractor Facilities." The assignment of technical representatives should be on an exception basis, such as when development-type efforts require the temporary presence of program office personnel to participate full-time on an government/industry IPT. When there is justification for a technical representative at the contractor's facility, the terms of the assignment should be jointly developed and agreed upon by the CAO and program manager in a memorandum of agreement.

***DoD Instruction 5000.2 and DLA Directive 5000.4 should be revised to require that program managers and DCMC CAOs jointly develop and approve program support plans for all major weapon systems contracts to ensure agreement on contract oversight needs and perspectives (Recommendation 4-2)***

Program offices use technical representatives and support contractors to provide program and technical oversight at contractor facilities because either:

- the CAO is not staffed to perform the functions;
- the CAO is perceived by the program office to lack the technical capabilities or competence to provide technical oversight for their programs;
- the CAO Commanders have not done a good job of marketing the skills of their staffs or their willingness to perform the functions;

- program managers have elected not to delegate the functions to the CAO because the CAO is an outside organization; or
- the contracts do not clearly, specifically, and completely describe systems requirements.

***Memoranda of agreement between program managers and CAOs do not effectively minimize overlap and duplication of technical representative and CAO responsibilities***

Program managers and DCMC CAOs have established memoranda of agreement in accordance with DFARS 242.7401(d) to delineate the administrative interrelationships between technical representatives and the CAO at the contractor's facility. Program managers or procuring contracting officers may also provide a technical letter of delegation to the CAO to define those technical functions, such as the type and extent of government inspections, required to administer the contract. CAOs may develop their engineering, design, and development surveillance plans with little input from program offices. Currently, DLA Directive 5000.4 does not require that CAOs obtain concurrence from program managers on their surveillance plans to ensure an understanding of the program office's needs and the CAO's ability and willingness to satisfy those needs. DFARS 242.7401 provides that program managers have the final decision on assigning technical representatives at contractor facilities to monitor contractor activities and function as a liaison with the contractor and CAO. These two approaches to DoD oversight of contractor technical performance do not ensure the best utilization of the limited CAO and program office assets for maximum benefits to the program and DoD. The PAT concluded that DLA Directive 5000.4 should be revised to state that DCMC CAOs and program managers should jointly develop and approve CAO program support plans for major weapons systems contracts in lieu of the engineering, design, and development surveillance plans. Also, DoD Instruction 5000.2 should address the requirement for program managers and DCMC CAOs jointly to develop and approve CAO program support plans on major weapon systems contracts. Teamwork and open, honest communications between the program office and the CAO are essential to program success and for the efficient and effective utilization of CAO and program office technical personnel.

***Overlapping and Uncoordinated Oversight of Contractor Technical Performance Is Wasteful and Burdensome for DoD and the Contractor***

The tracking of contractor technical performance by program management office technical representatives and the CAO on a repetitive basis, often by reviewing the same contractor reports on schedule, cost, and technical performance, is wasteful and burdensome for DoD and the contractor. Joint development and agreement between the CAO and the program office of the program support plan would improve communications and teamwork. Joint development of the plan would also identify any shortages or deficiencies in the CAO workforce.

***The program managers and DCMC should jointly review the placement of technical representatives in contractor facilities to eliminate duplication of CAS effort with the CAO and to delegate CAS functions that should be performed by the CAO (Recommendation 4-3)***

The presence of one or more technical representatives and support contractor personnel at prime contractor and major subcontractor facilities, who are working for and reporting directly to a program office, increases the opportunity of questions of the jurisdiction and authority of the CAO, the technical representative(s), and the support contractor(s) for technical and program oversight. Although technical representatives are not permitted by the DFARS to perform any CAS functions, to exercise oversight of contractors, or to provide any direction to the contractor, technical representatives in performing their technical acquisition management functions do monitor contractor performance and often interface directly with the contractor on technical matters. This could lead to micromanagement, conflicting direction and advice to the contractor, "requirements creep", and contractors receiving so much technical advice from Government representatives that they are no longer totally accountable for contractor performance. It could result in a duplication of oversight and staffing, increased contract costs because of excessive oversight and a loss of accountability for contract performance and contract oversight.

***There has been an emphasis on technical representatives not performing CAS functions***

In response to previous Inspector General reports, the Director, Defense Procurement, and the Service Acquisition Executives have emphasized that program office technical representatives should not perform CAS functions at contractor facilities. The trend has been a decrease in the staffing levels of program management office technical representatives. For example, the Navy reduced its technical representatives in contractor facilities between FY 1991 and FY 1994 from 599 to 320 persons, a reduction of about 52

percent. The Air Force reduced its technical representatives from over 400 persons to about 70 during the past 2 years. The consensus of members of the PAT was that program managers should make maximum use of CAO resources. The PAT examining Acquisition Oversight and Review also concluded that DCMC's role should be one of providing both general and program-specific oversight as well as the skilled cadre at the contractor facilities that can be the "eyes and ears" for the program office.

*Additional review needed to identify further reductions in the numbers of program management office technical representatives*

The PAT believes that the numbers of program management office technical representatives in contractor facilities can be further reduced. Reluctance of program managers to delegate certain tasks and rely on CAO people over whom they have no direct control is not adequate justification for continuing the assignments of technical representatives. The Air Force provided the PAT with results of a quick inquiry of the types of work that its technical representatives were performing at two contractor facilities. These results showed the technical representatives were performing such non-CAS functions as technical order processing, in-flight electronic warfare testing, and foreign disclosures on foreign military sales cases. The Air Force believed that a blanket transfer of technical representatives to DCMC would be inappropriate and suggested that all Services review the placement of technical representatives in contractor facilities to ensure there was no duplication of CAS effort.

DCMC representatives stated that the assignment of technical representatives should be reviewed at levels higher than the CAO and program manager. They suggested that a transfer of technical representatives to DCMC be handled on a case-by-case basis. Headquarters, DCMC participated in a review of technical representatives at six locations in 1993, during negotiation of an Interface Guidelines Document with the SSPO on the functions to be performed by its technical representatives. Because current information on the activities of each technical representative is not available, a joint review by the Services and DCMC on a case-by-case basis is needed to identify technical representative positions that can be eliminated or maintained under the control of the program managers.

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## Comparison of Effects

### Benefits

- Promotes one face to industry and reduces opportunity for conflicting direction and duplication of effort.
- Improves planning of the Government's surveillance and evaluation of contractor technical performance.
- Ensures the level of oversight at contractor facilities is appropriate.
- Reduces potential for contractor claims of conflicting Government direction.
- Reduces DoD personnel and contract costs.
- Enhances team work between program offices, CAOs, and contractors.

### Disadvantages

- Some workforce turbulence.
- Depends on program office willingness to rely on DCMC personnel, and vice versa.
- Requires program office personnel to travel to participate in in-plant discussions.

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## Risk Management

The PAT assessed the overall risk of this reengineering initiative to be low. Improving the planning of DoD's technical surveillance and evaluation efforts and a review of the functions performed by program office technical representatives will:

- Not increase the risk of program slippage, cost overruns, or technical failure.
- Reduce the risk of conflicting direction and advice to contractors and "requirements creep" on contracts.
- Require teamwork and two-way communications to define CAO program support requirements and priorities.

## Implementation Plan

Recommendation Number	Task	OPR	Date after Approval
4-1	A. Draft proposed language defining DCMC's program support responsibility for incorporation into DoD Directive 5000.1 and DoD Instruction 5000.2	DCMC	1st Otr
	B. Revise DoD Directive 5000.1 and DoD Instruction 5000.2 to address DCMC's program support responsibility	USD (A&T)	3rd Otr
4-2	A. Revise DLAD 5000.4 to require CAOs to obtain input and concurrence from program managers on program support plans	DCMC	3rd Otr
	B. Revise DoDI 5000.2 to require Program Managers to provide input and concurrence on CAO program support plans	USD (A&T)	3rd Otr
4-3	A. Issue policy memorandum to the Service Acquisition Executives and DCMC on DoD technical representatives at contractor facilities (Attachment 1)	USD (A&T)	1st Otr
	B. Conduct review of individual technical representatives	SAEs DCMC	3rd Otr



## Milestones

Task Name	Q1	Q2	Q3	Q4	Q5	Q6
<b>Recommendation 4-1</b>						
A. Draft proposed language defining DCMC's program support responsibility for incorporation into DoDI 5000.2						
B. Revise DoDI 5000.2 to address DCMC's program support responsibility						
<b>Recommendation 4-2</b>						
A. Revise DIAD 5000.4 to require CAOs to obtain input and concurrence from program managers on program support plans						
B. Revise DoDI 5000.2 to require Program Managers to provide input and concurrence on CAO program support plans						
<b>Recommendation 4-3</b>						
A. Issue policy memorandum to the Service Acquisition Executives and DCMC on DoD technical representatives at contractor facilities (Attachment 1)						
B. Conduct review of individual technical representatives						

## Resources Required

No additional resources are required. Technical representatives transferred to DCMC will result in a transfer of staffing and funding authorizations from the Military Departments to DLA. Potential savings that will be identified as a result of the joint review of technical representatives by the Military Departments and DCMC could not be estimated. The elimination of the requirement for a GS-12, step 4, technical representative FTE (full-time equivalent) will result in savings of about \$87,000 annually. The cost associated with the 460 technical representatives is estimated at about \$40 million annually.

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## Metrics

This section puts forth notional metrics to determine success of implementing the recommendations.

*DCMC's program support responsibility should be addressed in detail in DoD Instruction 5000.2*

Is the draft language on DCMC's program support mission developed for inclusion in DoD Instruction 5000.2?

Is guidance on DCMC's program support responsibility incorporated into DoD Instruction 5000.2?

*DoD Instruction 5000.2 and DLA Directive 5000.4 should be revised to require that program managers and DCMC CAOs jointly develop and approve program support plans for major weapon systems contracts*

Is guidance in DLAD 5000.4 on development of program support plans revised?

Is DoD Instruction 5000.2 revised to address the need for program managers to provide input and concurrence on CAO program support plans?

*The program managers and CAO Commanders should jointly review the placement of technical representatives in contractor facilities to eliminate duplication of effort with the CAO and to delegate functions that could be performed by the CAO*

Is the policy memorandum directing the Military Services and DCMC to conduct a review of technical representatives signed?

Does the joint review identify FTEs for transfer from the Military Departments to DCMC? For elimination? Is the overall DoD presence in contractor facilities reduced?

**Attachment 1**

**Sample Memorandum**

**MEMORANDUM FOR SERVICE ACQUISITION EXECUTIVES  
DIRECTOR, DEFENSE LOGISTICS AGENCY**

**SUBJECT: Technical Representatives at Contractor Facilities**

The Process Action Teams chartered to examine Contract Administration Reform and Systems Acquisition Review and Oversight Processes determined there is overlap between what program office technical representatives are doing at contractor facilities and Defense Contract Management Command local offices do. The overlap represents unnecessary duplicative activities, excessive oversight of contractors, and increased personnel and contract costs. The causes for the overlap were attributed to the perceived lack of a sufficiently trained and experienced cadre of technical experts within the Defense Contract Management Command offices who can serve as the program manager's eyes and ears, and to the reluctance of program managers to rely on people over whom they have no control, who may not be accountable, and who may have other agenda.

To ensure that the overlap and duplication in contractor oversight is minimized, you are directed to take a hard look at the continuing need for program management office technical representatives at contractor facilities. Whenever possible, program managers should make maximum use of Defense Contract Management Command personnel at contractor facilities and the Defense Contract Management Command should agree to assume responsibility for and perform, as part of its program support responsibility, all contract administration functions that technical representatives are or would be performing at contractor facilities. Only in exceptional cases and based on the mutual agreement of the respective program manager and Commander, Defense Contract Management Command will program management offices assign their own technical representatives in contractors' facilities. In these cases, technical representatives will only perform non-contract administration duties. I would like the results of your review by October 1, 1995. The Director, Defense Logistics Agency should take the lead in this review.

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CHAPTER FIVE

# QUALITY CONTRACTORS

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## Introduction

Process improvements must be expedited to improve service levels and to keep pace with the downward slope of the Department of Defense (DoD) budget. An area of concern is the DoD's acquisition oversight activity of defense contractors. Past practice has been to perform surveillance as mandated regardless of risk (high or low) to the Government. Tailoring of oversight has been the exception rather than the norm and has only been used in those areas where a degree of flexibility has been allowed, e.g. Process Oriented Contract Administration Services (PROCAS).

It is essential to formulate a process that (1) identifies those contractors where the risk to the Government associated with reducing or not performing oversight is low, and (2) identifies a methodology for adjusting levels of oversight based upon contractor performance. Among other actions, there is a need for promoting improved performance by industry, increasing industry accountability, and encouraging industry self-governance. Accomplishment of these actions should result in more efficient oversight practices and reduction in staffing levels. In considering these types of improvements, the Process Action Team (PAT) developed a strategy to strengthen risk management associated with oversight practices of the DoD.

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## Objective

Develop a risk assessment methodology that can be used to evaluate the likelihood that contractor processes will satisfy customer requirements. Such a methodology would aid in determining the level of DoD contract administration requirements and their respective impact on government and contractor staffing levels.

This objective was generated based upon the following assumptions:

- Contract Administration Services (CAS) are still mission requirements.
- All CAS functions are included in the objective.

- There will be increased use of commercial services and products to satisfy defense needs.
- There are contractors whose quality of performance is sufficient to allow DoD activities to reduce or disengage oversight.
- Any adjustment will be based upon measurable contractor performance supported with data.

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## **Recommendations**

The PAT makes the following recommendations:

- DoD contract administration oversight should be tailored based on a uniform risk assessment methodology (Recommendation 5-1).
- When conducting risk assessments, DoD activities should request, review, and consider all evidence (Government, contractor, and commercially available) that may mitigate perceived risks and the need for DoD oversight (Recommendation 5-2).
- DoD activities should encourage and facilitate contractor preparation and submission of "Alternative Oversight Proposals" (AOPs) (Recommendation 5-3).
- DoD should establish pilot locations to test the viability of Contractor Self-Oversight through the use of designated representatives (Recommendation 5-4).

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## **Discussion**

Based on the PAT charter and operating guidance, which was to establish a process for identifying "quality contractors" and to identify how government contract administration requirements drive contractor and government staffing levels, the PAT developed five focus areas:

- Malcolm Baldrige National Quality Award (MBNQA)/self-governance criteria

- Commercial/professional certifications
- Commercial contract administration practices
- Government certifications/vendor rating systems
- Types of government oversight

The PAT developed a research plan for each focus area that included literature reviews, interviews, briefings, and telephone surveys. The research led to the recommendations discussed on the following pages of this chapter.

*DoD contract administration oversight should be tailored based on a uniform risk assessment methodology (Recommendation 5-1).*

Resourcing for DoD contract administration oversight varies a great deal in scope and depth from one location to the next. The DoD Inspector General (DoD IG) in September 1994 issued a report on Defense Contract Management Command's (DCMC) effectiveness and efficiency of processes to plan, implement, report and manage oversight. One of the findings addresses the lack of an effective process for determining manpower requirements. The DoD IG found that there is a wide variation in the methods used to identify personnel needs (DoD IG, 1994).

Each Contract Administration Office (CAO) makes decisions on where and how to deploy increasingly limited contract administration oversight resources. Frequently, the decisions are not based on specific risks. Resources are assigned by CAOs in response to receipt of contracts. There is little documented evidence that consideration of the customers' essential needs, specific high risks, or information on the adequacy of contractor controls influences resourcing. The intensity and nature of oversight ebbs and flows and is not necessarily driven by changes in risk, but by available manpower. The time available for oversight becomes the amount needed and the amount applied.

DoD budget cutbacks, downsizing and quality improvement trends have prompted numerous agencies to develop programs to identify, assess, and improve the quality of contractors' performance. These programs include, but are not limited to:



- Qualified products list (QPLs) and qualified manufacturing lists (QMLs)
- Past Performance Information
- Contractor self-governance programs such as the Contractor Risk Assessment Guide (CRAG)
- Internal Control Audit Program Summary (ICAPS)
- Contractor performance certification

The PAT does not believe that the use of a *formula* to determine oversight requirements would adequately consider all of the variables for each situation. Each agency must use a process to tailor their oversight activities, but a uniform risk assessment methodology should be followed. The following process flow chart, Figure 1, demonstrates how this should work:

### Risk Assessment Methodology for Contract Administration Oversight

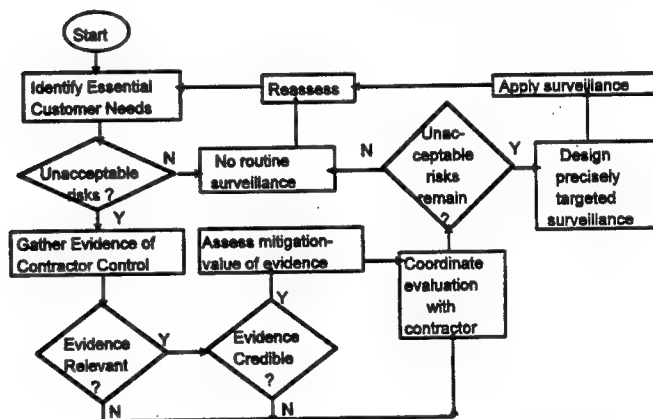


Figure 1

**Identify Essential Customer Needs** - These needs will vary from customer to customer. The only way to ascertain what the customer requires is to maintain a continuous dialogue with the customer.

**Unacceptable Risks** - Identify system deficiencies, errors, and performance failures that would materially preclude satisfaction of customer requirements. Examples include low

process yields, missed delivery schedules, cost overruns, and inadequate proposals.

**Gather Evidence of Contractor Control** - Gather all available data concerning areas of unacceptable risks. Data may include information such as:

- Results of prior government reviews, surveys, or audits.
- Customer feedback on contractor performance.
- Government certifications.
- Contractor self-assessments.
- MBNQA assessments and evaluations.
- Commercial Certifications

Discuss unacceptable risk areas with the contractor. Explain the basis for concern, and give the contractor the opportunity to provide additional information. Access to contractor self-assessments, MBNQA assessments and evaluations, and commercial certifications will require the cooperation of the contractor.

**Determine if the Evidence is Relevant** - The information used to determine the adequacy of the contractor's controls must cover and reflect the effectiveness of the controls being evaluated. The facts and opinions used to prove or disprove an issue must have a logical relationship to that issue.

**Determine if the Evidence is Credible** - The quality of the evidence obtained will influence the ability of the evaluator to make substantiated judgements regarding the adequacy of the contractor's controls. The quality of evidence should be sufficient and competent enough to provide a reasonable basis for the conclusions reached. Competent evidence that is independent of the contractor or is the result of an independent government or commercial assessment is preferred, but even contractor self-assessments can be used where confidence in such assessments exists. Confidence may be derived from experience or verification.

**Assess Mitigation (value of evidence)** - Determine if the information available provides confidence that contractor controls are in place and functioning. This is a considered judgement, based on the analysis of all relevant, credible evidence of contractor controls. Discussion with customers is essential to ensure common understanding.

**Coordinate Evaluation with the Contractor** - Provide the contractor the results of the risk assessment with an explanation of deficiencies in controls related to areas where unacceptable risk levels are still perceived. Use this as an opportunity to ensure that all relevant data was considered, and that no technical misunderstanding of the data has occurred. Finally, consider any additional evidence provided by the contractor.

**Determine if Unacceptable Risks Remain** - After considering all available evidence, and coordination with the contractor, evidence of unacceptable risk(s) may remain and must be identified. (Note: At major contractors, Defense Contract Audit Agency (DCAA) and DCMC especially need to share risk assessment information to preclude duplication of effort and/or conflicting assessments results).

**Design Precisely Targeted Surveillance** - When unacceptable risks remain, the Government must precisely design oversight activities to mitigate those risks. Coordination with the customer is necessary, to ensure the customer understands the risk assessment, and is satisfied with the oversight activities designed to mitigate the unacceptable risks. Customer input and/or direction received should be incorporated.

**Apply Surveillance** - Conduct oversight activities in areas of remaining unacceptable risks, but only until specific risks are considered acceptable. As soon as data indicates risks are acceptable, discussions with the customer should occur, to decide when particular oversight activities will be reduced or discontinued.

**No Routine Surveillance** - Surveillance of low risk areas should be limited to exception basis monitoring or required compliance reviews.

**Reassess** - Reassessment will be necessary periodically and whenever significant changes occur that can reasonably be expected to change customer needs, the risks, or the credible and relevant information available that might mitigate unacceptable risks. Customer participation is essential.

While the methodology outlined above provides a uniform process, the Risk Assessment Criteria Guide, Figure 2, illustrates how some control mechanisms might influence risk assessment.

### EXAMPLE

#### RISK ASSESSMENT CRITERIA (GUIDE) FOR CONTRACT ADMINISTRATION OVERSIGHT

RISK LEVEL	COST	SCHEDULE	TECHNICAL	SUPPORT
LOW	Cost within budget	Low Rate production successfully completed	Physical and functional configuration audits completed	Support equipment demonstrated
	Adequate accounting system	On time delivery	Design used only fully qualified existing items	Technical Orders (TO) verified
	Effective internal controls	Production readiness reviews completed	Statistical Process Control (SPC) used extensively	Integrated Logistics Support (ILS) elements demonstrated at or above requirements
MODERATE	No marginal reserves to cover unexpected problems	Yields / tolerances / process controls meet needs	Personnel have skills but need experience	Long-lead spares on order
	Cost data reflects some concern	Technology development completed, but never used at production rates	Process yield data points to concerns	Only 80% ILS elements demonstrated
	Some internal control weaknesses exist	Evidence exists that schedules may slip	Customer complaints exist	
HIGH	Inadequate accounting system	Behind Schedule	No internal audit system	New technology required
	CAS non-compliance issues	Process yields low	No SPC practices	State of the art is advanced
	Inadequate internal controls exist	Significant supplier problems	High scrap / repair / rework costs	Some performance requirements may be unachievable

Figure 2

This recommendation complements and endorses the DCMC/DCAA initiative, "Reducing Oversight Costs" Reinvention Laboratory, in that decisions to apply oversight directly to areas deemed high risk to the Government will provide opportunities to optimize resource allocation and improve customer satisfaction. Oversight resource allocation should be based on a systematic, thorough, considered risk assessment of contractor controls of cost, schedule, and technical performance processes and systems. Such a methodology incorporates best commercial practices and promotes risk management through a structured decision making process. Once risks are identified, targeted surveillance is applied and contractors are encouraged to initiate quality improvement plans aimed at reducing the risk. As Figure 3 shows, the level of surveillance directly correlates to the level of risk.

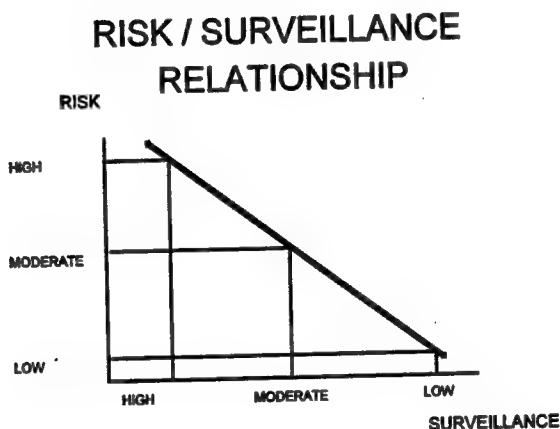


Figure 3

It is important to note, however, that based on customer requirements or safety concerns, some high visibility programs may continue to justify full oversight even if contractor performance and program history are assessed as low risk (e.g., National Aeronautics and Space Administration (NASA), Navy Nuclear Propulsion Program, etc).

*When conducting risk assessments, DoD activities should request, review, and consider all evidence (Government, contractor, and commercially available) that may mitigate perceived risks and the need for DoD oversight (Recommendation 5-2).*

All risk assessments require the review of some form of data. During the PAT's research, it became apparent that DoD activities frequently do not consider all available information that might mitigate the need for direct oversight of contractor operations. DoD customers can and should provide the results of audits and reviews they conduct on contractor operations. However, sharing information of this nature appears to be sporadic at best. Additionally, contractors should be offered the opportunity to provide evidence from internal audits or audits conducted by their customers. Favorable information from any source that is relevant and credible, could mitigate perceived risks and lessen the need for direct DoD oversight.

The following are sources of data that could be considered:

#### **Commercial Reviews/Certifications**

1) **ISO 9000:** International Organization for Standardization (ISO) 9000 is a set of standards for the management of quality assurance, commonly referred to as ISOs. ISO certification does not necessarily mean contract compliance, but certification can demonstrate the capability of a contractor to comply. These standards focus on company processes, not on contracts or products. Since they were developed by some of the same organizations responsible for MIL-Q-9858, ISOs match the military standard in many areas (Hutchins, 1993). For comparison purposes, it should be noted that ISO 9001 is approximately equivalent to MIL-Q-9858A. ISOs are being used widely in the European Market, with more than 30,000 European contractors certified. Interest is increasing in the United States with approximately 4,000 companies currently certified and about 400 new companies being certified each month. Industries such as auto and steel are now developing industry specific modifications to the standards and are preparing to place the ISO requirements on their suppliers. If a contractor had an ISO 9001 certification, it is possible some of the quality system oversight could be eliminated. The source and or validity of the contractor's ISO 9000 certification should be considered in determining its credibility. However, even with an approved ISO system, there still may be a need for oversight in process and product verification.

**2) Public Information Services:** There are companies who compile and provide financial information to buyers. The chapter on preaward surveys provides detailed information on available services.

### **Government Programs**

The Government has developed many different programs to identify quality contractors. These various programs should be used during the risk assessment process. They include, but are not limited to:

**1) Malcolm Baldrige National Quality Award Assessment** (Brown, 1991): MBNQA (and similar) assessments are not contract compliance audits per se, but they provide valuable insight into the contractor's processes for achieving quality products and services, how well those processes are executed, and the results in terms of quality levels, improvement and customer satisfaction (approach, deployment, results). When contractors are willing to share verified MBNQA assessment information, the Government may be able to more quickly and precisely design and target necessary oversight, thus reducing the associated costs for both the Government and the contractor.

Credible, relevant, and favorable MBNQA assessments may be relied on to mitigate risks, and reduce or eliminate the need to apply government oversight. For example, the criteria in MBNQA section 5.4, Management of Supplier Performance, includes:

- A summary of the organization's requirements and how they are communicated to suppliers including measures and/or indicators and expected performance levels.
- How the organization determines whether or not its requirements are met by suppliers.
- How performance information is fed back to suppliers.
- How the organization evaluates and improves its management of supplier relationships.
- Performance, actions and plans to improve the organization's own procurement processes.

- How to minimize costs associated with inspection, test, audit, or other approaches used to verify supplier performance.

A highly favorable assessment of a contractor's supplier quality approach, deployment, and results should mitigate concern regarding the effectiveness of the contractor's supplier quality system. This could eliminate the need for additional oversight in the form of Contractor Purchasing System Reviews (CPSR). Conversely, low scores in this area might suggest that supplier quality is an area of weakness where continued oversight would be appropriate.

**2) Contractor Performance Certification Program:** The Contractor Performance Certification Program (USAMC, 1994) is an Army program based upon several performance attributes and goals. The goals include having a good product, using statistical process controls, maintaining a system for design controls, employing a continuous improvement culture and techniques, having the ability to search out and obtain customer feedback, having a process for performing internal audits, and measuring customer satisfaction. Contractors that obtain certification may be subject to less program oversight because the certification process demonstrates proven performance.

**3) Qualified Products List and Qualified Manufacturers List:** These two lists provide for up front testing of products and processes. The qualification program reduces acquisition costs by reducing or eliminating repetitive surveillance audits, first article tests, and qualification tests for each individual product procurement and contract.

**4) Past Performance Information:** Each service maintains separate past performance information systems. Pursuant to a February 1993 Federal Procurement Council meeting, the Office of Federal Procurement Policy (OFPP) published a pamphlet identifying 12 different systems (OFPP, undated). These systems rate, at a minimum, vendor quality and schedule performance. Most consider additional factors. The DCAA also has available past performance information. Some examples of past performance information include the Air Force's Contractor Performance Assessment Program Reporting System (CPARS), the NASA's Contractor Performance Summary System, and DCAA's Internal Control Audit Planning Summary (DCAA, 1994, October) and Post



Award Audit Selection System (DCAA, 1994). While these systems do not contain all the information necessary to make a quality contractor determination, they are a significant source of information.

### **Customer Audits**

Many DoD contractors supply other customers who also assess their operations. This assessment often takes the form of in-depth audits of various aspects of contractor operations, establishing confidence in the supplier as a responsible and reliable source of supply. Access to this information could provide additional confidence in the contractor's controls and lessen the need for applying government oversight.

### **Internal Audits**

Many DoD contractors assess their own operations by conducting in-depth audits assessing compliance, efficiency, and performance. Typically, these internal audits result in detailed reports highlighting strengths and weaknesses observed in contractor operations and assigning responsibilities for followup and corrective action. If available, relevant, and credible, such reports could provide additional confidence in the contractor's approach, deployment, and results. Where the results are favorable, the internal audit reports should lessen the need for designing and applying government oversight.

All of the aforementioned sources, and others, supply contractor performance information; however, the information is currently stored in many locations and in various formats. A better understanding of the contractor would be obtained if all information relative to that contractor were available in one location. The PAT concluded that the cognizant contract administration office should be the appropriate repository for this data.

***DoD Activities should encourage and facilitate contractor preparation and submission of Alternative Oversight Proposals (AOPs) (Recommendation 5-3).***

Some contractors complain that government oversight is unnecessarily intrusive on the private sector, and that it adds significantly to their costs. A recent study estimated that burden to be 18% of DoD contractors' costs (Coopers & Lybrand, 1994). These contractor complaints are frequently heard, but because it is such a complex issue, complaints are seldom addressed conclusively.

The PAT believes there are viable alternatives to direct government oversight that, in some situations, could provide at least an equivalent level of confidence as direct government oversight. Some are put forward in this report, but the PAT also believes the creativity and expertise of the private sector is capable of developing many worthwhile alternatives. The PAT developed the model shown below to suggest how AOPs would be proposed:

#### Alternatives to Oversight Proposals

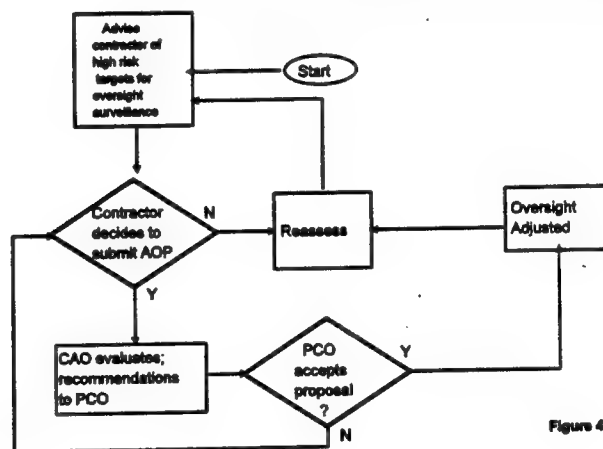


Figure 4

As Figure 4 depicts, the process would begin (after contract award) by DCMC encouraging contractors to identify alternatives which would reduce government oversight. The local CAO would validate the contractor's proposal and provide comments to the Procuring Contracting Officer (PCO). The PCO would evaluate the proposal and weigh its merits against the remaining risks to the Government to decide if it is in the best interest of the Government to accept or reject the contractor's proposal. An AOP that results in increased costs should not be accepted. If the contractor's proposal is accepted, the PCO would provide implementing direction to the contractor and the DoD activities providing oversight

surveillance, including the contract administration office. The AOPs, if adopted would not result in payment to the contractor for proposal preparation or implementation.

The following is an example of when an AOP may be appropriate. A contractor receives a contract which contains the requirement that all welding be accomplished in accordance with MIL-STD 1261. The standard requires that test coupons be produced and submitted to the Government for approval that represent the process to be utilized during production. Furthermore, the standard requires that a welding procedure be developed that outlines the steps of the welding process. The contractor has been producing similar items for a commercial customer that had already reviewed and approved the process and related work instructions. The contractor or the Government could submit an AOP to accept the commercial qualification in lieu of the government qualification and eliminate the need for separate government qualifications and approvals.

*DoD should establish pilot locations to test the viability of Contractor Self-Oversight through the use of designated representatives (Recommendation 5-4).*

The DCMC and the Services should jointly designate pilot locations at which technical oversight of the contractor's work would be performed by contractor employees formally designated by contract as Technical Compliance Designees. The designees would not be representatives of the Government. Instead, they would be required to meet qualification requirements specified by the contract, and be assigned, by their company, with specific, contractually directed authorities and responsibilities. The Technical Compliance Designees would not be delegated duties that are considered "Inherently governmental functions" as defined by Office of Management and Budget (OMB) Letter 92-1, dated September 23, 1992. Performance of the Technical Compliance Designees would be periodically and randomly monitored by DCMC to ensure effective discharge of their responsibilities. Existing statutes provide for civil and or criminal penalties for neglect or malfeasance.

The contract administration functions defined in FAR 42.302 can be categorized as either assistance, performance, or surveillance (Brunk, 1994). The DCMC approach to accomplishing these functions is to place DCMC personnel in the contractor's plant, in either a resident or nonresident capacity. These personnel perform system audits, inspections, and reviews of technical data in their surveillance

of the contractor's technical performance. In many cases, they duplicate the same audits, inspections, and reviews already performed by the contractor. While this may be necessary in some instances, it does not appear to be the most efficient method of technical oversight in many cases. The Federal Aviation Administration (FAA) has taken a much different approach in their regulatory control of the civil aeronautics industry (FAA, 1982). While the missions of the FAA and DoD acquisition are vastly different, the FAA utilizes some interesting methodologies which warrants further consideration.

As authorized by Title 49 USC 1355, the FAA utilizes designated representatives of the Administrator to ensure compliance with the governing design, production quality assurance, and airworthiness certification requirements. These designated representatives are properly qualified contractor employees who perform the examination, inspection, and testing necessary for aircraft certification, and they actually issue such certificates in accordance with standards established by the Administrator. FAA monitors the safety performance of certified or approved products, systems, and representatives to ensure continued integrity as part of the FAA certificate management process, and takes regulatory enforcement actions when required. As part of the FAA certificate management process, the Aircraft Certification Systems Evaluation Program (ACSEP) is a comprehensive evaluation program through which the FAA's Aircraft Certification Service determines whether production approval holders and associate facilities are meeting the requirements of the applicable Federal Aviation Regulations and complying with procedures established to meet those requirements, including control of suppliers (FAA, 1994). The PAT believes the FAA methodology could be adapted to a wide variety of defense procurements.

The interest of the FAA is primarily focused on assuring aviation safety while that of the DoD acquisition community is in the development and acquisition of weapons systems and material for our armed forces. However, they are both responsible for ensuring private sector companies comply with a set of technical and administrative requirements. FAA requirements are contained in the Federal Aviation Regulations and also in data specifically approved by the FAA or FAA-delegated representatives. This data includes design drawings, manuals, procedures, and specifications. These

regulations and data apply to designers and manufacturers of civil aircraft, engines, and components, and to authorized repair/modification stations, an industry not unlike DoD contractors. Similarly, DoD administrative and technical requirements are contained in the Federal Acquisition Regulations, in contracts, and in military specification standards.

The processes utilized by these private sector companies, some subject to oversight by the FAA, and some by DoD, are remarkably similar. The first column of Figure 5 below identifies the major processes and milestones in the development and manufacture of a major hardware end item. The second and third columns show the measures used by the DoD and FAA to control those private sector processes. Other than differences in terminology, the types of control exercised are often very similar.

## DoD/FAA PROCESS COMPARISON

PROCESS/MILESTONE	DoD	FAA
<b>DEVELOPMENT</b>		
Requirements Determination	Operational Requirements Document	Company Market Survey
Design Goals	Statement of Work, System Spec, MIL Specs & Standards	Market Survey and Federal Aviation Regulations
Contractor Turn On	Contract	Self Initiated
Design Oversight	PM Technical Staff	Designated Engineering Representative (DER)
Design Oversight Audit	None	Aircraft Certification Systems Evaluation Plan (ACSEP)
Design Approval	Design Approval	Type Certificate
<b>PRODUCTION</b>		
Product Definition	Design Data Package	Design Data Package
Facility/Producer Capability Determination	Pre-award Survey and/or Service Level Reviews	Production Certificates (PC) or Parts Manufacturer Approval (PMA)
Contractor Turn On	Contract	Self Initiated
Quality Assurance System Requirements	MIL-Q-9858 and Approved Quality System Description	Federal Aviation Regulations and Approved Production Inspection System
Quality Control Methodology	Contractor Inspection	Designated Manufacturing Inspection Representatives (DMIR); Designated Airworthiness Representatives (DAR)
Quality System Oversight	Quality System Audits; Mandatory Inspections	Random FAA Inspections; Aircraft Certification Systems Evaluation Program
Acceptance	DD-250	Airworthiness Certificate

Figure 5

A Contractor Self-Oversight pilot program should be designed as follows:

- The Technical Compliance Designees would be nominated by the contractor and approved by the CAO, with notification provided to the PCO.
- The Government would specify, via contract, the qualification requirements in terms of education, experience, and technical competency. (It should be noted that the FAA provides additional safeguards on designees personal integrity by requiring two letters of recommendation from FAA employees who have worked with the individual and can vouch for his/her character).
- The contract would specify what authorities and responsibilities the designee would be delegated by the company.
- The designated individual would oversee the work of the contractor, subject to periodic system audits and random tests by the Government.
- The designated individual would certify to the Government by means of a Certificate of Conformance, that the work was performed in accordance with the applicable contract, standards, and specifications.
- The Certificate of Conformance would be the basis of the Government's acceptance, as is current practice.
- Corporate and individual accountability would be ensured by civil and criminal remedies currently existing in law (e.g. Title 18 USC Section 1001).

Specific program/contractor site locations for pilot program implementation should be jointly determined by the Director DLA and the Service Secretaries in accordance with the following selection criteria:

- Contractors should voluntarily participate.

- Sufficient data should exist to provide a baseline for measuring changes in contractor quality performance and cost of government technical oversight.
- Current CAS oversight of contractor is performed by CAO non-resident or easily reassignable personnel.
- Potential benefits to be achieved must be weighed against the risk of using Technical Compliance Designees.

A detailed implementation plan will be required prior to beginning the Contractor Self-Oversight pilot. This plan should be developed by DCMC with coordination from the buying offices. It should include, as a minimum:

- Identification of selected program and/or contractor locations.
- Policy and procedural guidance for conducting the pilot program.
- Coordination with the appropriate program managers and CAOs to ensure appropriate contractual provisions are utilized.
- Training of contractor and government personnel involved in the pilot program to cover policy, procedures, authorities, and accountability.
- Duration of the pilot program.
- Methods of periodic and random audit.
- Sources of specific data to be utilized to measure implementation cost, the effectiveness of oversight, and the resulting savings.
- Criteria to be used in making the success/failure determination.
- Exit criteria for conclusion of the pilot program.

Upon successful completion of the pilot, a plan for follow-on implementation (including policy, procedures, FAR changes, training, and resourcing) will need to be developed.



FAA procedures represent a significant cultural departure from the inspection mindset that characterizes DoD CAS. However, on many programs involving commercial derivative aircraft, the Air Force relies on the FAA to ensure airworthiness of the airframe. The current DoD policy of replacing military unique specifications and hardware with commercial specifications and Commercial-Off-The-Shelf (COTS) hardware will make these two environments more similar. With increasing reliance on dual use technology, a single approach to technical oversight appears to offer significant benefit. In addition, the technical requirements contained in the Federal Aviation Regulations are, in large measure, performance specifications. As DoD transitions from design specifications to performance specifications, the task of ensuring compliance with that type of specification becomes even more similar to that faced by the FAA.

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## Comparison of Effects

*DoD contract administration oversight should be tailored based on a uniform risk assessment methodology (Recommendation 5-1).*

The result will be a systematic decision making approach regarding oversight, as well as resource allocation based on customer needs, contractor performance, and/or program risk to the Government. By focusing resources in areas where the impact is significant (cost, high visibility program(s), technical risk, etc.) and/or the risk for potential problems exists, CAS and other oversight activities will be more efficient and effective.

### Benefits

- CAS outputs are customer focused.
- Reduces government and contractor costs because oversight is targeted based on risk management.
- Promotes contractor quality improvement initiatives.
- Adopts commercial practice of focusing on customer needs.

### Disadvantages

- Oversight organizations may lack the necessary flexibility to effectively allocate resources based on risk assessments; mobility of the workforce is an inhibitor, i.e., getting the right person with the needed skills in the right location to effectively tailor oversight.
- Management's propensity to endlessly revisit decisions may continue to impact surveillance activities.
- External oversight groups may perceive that there is inadequate coverage (e.g., DoD IG).
- Resourcing decisions may be budget driven rather than risk assessment based.

*When conducting risk assessments, DoD activities should request, review, and consider all evidence (Government, contractor, and commercially available) that may mitigate perceived risks and the need for DoD oversight (Recommendation 5-2).*

Ready access to available data will provide additional basis for CAO risk assessments. The resulting risk assessments will permit CAOs to design oversight to counter perceived contractor performance risk.

### Benefits

- Assists in identifying duplicative reviews and/or reviews that are unnecessary.
- Improves basis for risk assessments.
- Central locations should facilitate sharing of information.
- More effective risk assessments.

### Disadvantages

- Plan will require more up-front labor to collect, store, and evaluate existing data.
- CAOs frequently do not have access to the results of customer audits and reviews of contractor operations.

- Some contract administration policies do not direct contract administration personnel to seek unconventional data and consider relying on the work of others before designing and applying direct DoD oversight.
- Reluctance of some DoD buying and technical activities to share data outside their normal channels.
- Lack of uniformity in data definition. For example, many definitions exist for "delinquency."

*DoD Activities should encourage and facilitate contractor preparation and submission of Alternative Oversight Proposals (AOPs) (Recommendation 5-3).*

The result will be the implementation of a process that encourages contractor/government risk management, promotes process improvement, reduces government oversight, and capitalizes on the innovation of American industry.

**Benefits:**

- Requires less government personnel for post award surveillance.
- Provides a process that captures innovative ideas from industry.
- Promotes DoD contractor self-governance.
- Reduces program/contract costs.

**Disadvantages:**

- Loss of direct government oversight.
- Additional or new resources, if necessary, will lag behind requirements.
- The response time for re-establishing government oversight could be lengthy due to the current personnel system, which lacks the ability to quickly respond to staffing needs.

*DoD should establish pilot locations to test the viability of Contractor Self-Oversight through the use of designated representatives (Recommendation 5-4).*

The development of innovative techniques for technical surveillance of contractors' work effort has potentially very broad application across DCMC. According to data gathered in the Activity Based Cost (ABC) interviews, in FY93, DCMC spent in excess of \$96 million performing oversight activities adaptable to Contractor Self-Oversight procedures (DCMC, 1994 April 13). Clearly, the potential for savings is significant.

**Benefits:**

- Eliminates much of the duplication of effort between government and contractor personnel in the performance of technical oversight tasks.
- Makes DoD contractors more accountable for the quality of the goods and services they provide to the Government.
- Fosters a closer "partnering" relationship between the contractor, buying office, and DCMC.
- Could result in a significant reduction in DCMC resources dedicated to technical oversight.
- Could increase contractor productivity due to their ability to better schedule their work.

**Disadvantages:**

- Resources, at HQ DCMC, DCMC Field Activities and the Buying Commands, must be allocated to plan and execute the pilot program and to evaluate the results. In addition, an investment in education and training of both government and contractor personnel is required to implement the pilot program.
- A potential conflict of interest lies in vesting contractor employees with duties and responsibilities integrally affecting the interests of the Government.
- Neglect or malfeasance on the part of the Technical Compliance Designees could result in a catastrophic failure mode.

- Contractors may attempt to recoup the additional cost of their employees performing the Technical Compliance Designee duties.

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## Risk Management

The PAT recognized that in the past, risk management often failed due to an environment which overreacted to problems resulting from special causes within the acquisition process. Unless the environment changes, getting agencies to apply risk management principles will be difficult. Decision-makers will need to accept inherent risk within their systems and encourage risk taking as a normal part of their business.

*DoD contract administration oversight should be tailored based on a uniform risk assessment methodology (Recommendation 5-1).*

Risk assessment based on experience or intuitive reasoning (guessing) is not a sufficient basis for strategic decisions regarding the deployment of limited resources. Proper risk management of oversight activities requires a systematic approach to the identification of customer needs, contractor performance, program risk and CAS requirements. Changing the current culture from risk avoidance to risk management will require training as well as persistent and consistent implementation of formal risk management techniques. Implementation of the recommendation represents a "next step" in focusing oversight resources on risk areas while still satisfying customer needs and protecting the Government's interests.

Risk assessment processes must be allowed the flexibility to be tailored at the local CAO level. An assessment of risk to the Government of a small contractor may differ from that of a large contractor. The types of risk associated with large contractors would include cost, delivery and technical systems. Risk Assessments associated with small contractors may not be as inclusive as those associated with large contractors and would consider only those areas that apply. The implementation of PROCAS performance-based management philosophy throughout DCMC has already established the requirement for multifunctional risk assessment of contractors and processes.

The recommended methodology will support discussions with customers on assessed risk and can stand up to external scrutiny. The determination of acceptable contractor performance risk in all areas will not necessarily require the reduction of significant oversight effort if the program or funding level of a contract is of a high risk nature to the customer. Any attempt to inflate the assessment of a contractor's performance as high risk to support more or maintain current levels of resources without substantiation would invite unwanted management attention. Implementation must include provision for random and periodic reviews to ensure CAOs are effectively utilizing risk assessment methodology in deploying oversight resources.

*When conducting risk assessments, DoD activities should request, review, and consider all evidence (Government, contractor, and commercially available) that may mitigate perceived risks and the need for DoD oversight (Recommendation 5-2).*

The basic risk for collecting, storing, and using all credible information is fear that the information collected by the contract administration personnel will not be controlled properly. Poor control could result in inadvertent release to competing contractors or in some cases source selection information could be released through Freedom of Information Act procedures. Although this is a valid concern, it should not stop the implementation of this recommendation. This type of concern exists in the way we do many forms of business, i.e., in the preaward process at the CAO, the vendor rating systems at the various agencies, and the audit information maintained by DCAA. It will be incumbent on each CAO to maintain the adequate security of their information.

*DoD Activities should encourage and facilitate contractor preparation and submission of Alternative Oversight Proposals (AOPs) (Recommendation 5-3).*

Allowing contractors to propose alternative forms of oversight may be risky as it sets the stage for contractors to propose self-governance. Self-governance has not always worked in the past. Decision makers will need to be convinced that alternative forms of oversight can work, and that when it fails Government can reinstate oversight in a timely manner. Strong penalties for contractors that fail to properly control their processes will reduce the risk to the Government.

Another risk could be negative public perception that the taxpayer's interest is not being protected. An effective public information program could help mitigate this risk.

An inexpensive method to mitigate this risk is to place more reliance on the DLA Product Testing Centers. The DoD Inspector General recommends that as in-plant quality assurance presence is reduced over time, that DLA maintain a vigorous independent product testing program.

*DoD should establish pilot locations to test the viability of Contractor Self-Oversight through the use of designated representatives (Recommendation 5-4).*

This recommendation represents a major paradigm shift in contract administration. It would, for the chosen pilot locations, delegate the technical oversight functions of CAS to the contractor. It is assumed contractors are motivated by profit and the desire to maintain a satisfactory business relationship with the DoD customer. Historically, the profit motive has appeared to be the stronger of the two for some DoD Contractors. Contractual provisions can successfully counter the negative motivations for the contractor as a corporation. However, to counter the negative motivation of the Technical Compliance Designee as an individual, the pilot implementation must ensure civil and/or criminal penalties for malfeasance or neglect are enforced. Implementation must also include provisions for random and periodic audits to ensure that the Technical Compliance Designees are effectively performing their delegated duties. In addition, if the pilot locations are selected in accordance with the criteria outlined in this chapter, the downside risk of Contractor Self-Oversight failure should have minimal long term impact.

The risk of increased product cost due to contractor recoupment of Technical Compliance Designee costs should be offset by contractor savings due to reduced government oversight.

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## **Implementation Plan**

The implementation of these recommendations will require support from the Under Secretary of Defense for Acquisition and Technology (USD (A&T)) and the DoD Comptroller. The "Resource requirements" are based on an assumed standard of \$50 per manhour and the PAT's (experience-based) estimates of the time required to complete each recommendation. It is expected that funds for the individual requirements will come from the affected organizations. The following tasks need to be completed:

**DoD contract administration oversight should be tailored based on a uniform risk assessment methodology (Recommendation 5-1).**

TASK	OPR
<p><b>Task 5-1A:</b> USD (A&amp;T) in coordination with the DoD Comptroller, will direct DCMC and DCAA to expand their Reinvention Laboratory, "Reducing Oversight Costs" to include a pilot study of a uniform method of evaluating risk based on the PAT's recommended process. DCMC shall coordinate the process. The USD (A&amp;T) will direct DLA and the Military Services to support the DCMC/DCAA Reinvention Laboratory pilot study. (Attachments 1 and 1A).</p>	USD(A&T)
<p><b>Task 5-1B:</b> DCMC/DCAA revise/expand the current "Reducing Oversight Costs" Reinvention Laboratory to include developing and executing a plan to implement a pilot study at DPROs, followed by DCMAOs, using the recommended risk assessment process to tailor oversight at a range of contractor facilities. At the end of the pilot study, evaluate the results, identify best practices, and make recommendations to the USD (A&amp;T) regarding full implementation of the program. A change to DFAR 242.302a may be needed to assure contract administration functions are performed in the most efficient and effective manner when an assessment indicates low risk to the Government. Outputs from the pilot study should include submission of a DFARS case, if necessary, and development of a chapter on Risk Assessment implementation to be included in DLAD 5000.4 Contract Management (One Book). Pilot study to be conducted for 1 year; DFARS case to be submitted within 60 days of completion of pilot study; Risk Assessment implementation chapter for DLAD 5000.4 to be incorporated within 60 days of completion of FAR change.</p>	DCMC DCAA
<p><b>Task 5-1C:</b> Each oversight activity headquarters will develop policies and procedures to require the use of risk assessments in the determination of oversight activity and adjustments to staffing levels. The risk assessments should be based upon the recommended risk assessment methodology from the DCMC/DCAA Reinvention Laboratory pilot study.</p>	CAEs DCAA



## Resource Requirements

	Year 1	Year 2	Total
<b>Man-Years</b>	4.8	1.9	6.7
<b>Dollars</b>	\$501K	201K	703K

When conducting risk assessments, DoD activities should request, review, and consider all evidence (Government, contractor, and commercially available) that may mitigate perceived risks and the need for DoD oversight (Recommendation 5-2).

TASK	OPR
<p><b>Task 5-2A:</b> USD (A&amp;T) directs (Attachment 2):</p> <p>(1) DoD buying and technical activities to provide copies of relevant future reports of audits/reviews of contractor operations conducted and other documents assessing or rating contractor performance of operations, to the cognizant CAO (see DLAH 4105.4, DoD Directory of CAS Components) for their consideration in conducting risk assessments.</p> <p>(2) DCMC to develop a process for contract administration offices to collect, store, and access data received from government agencies and/or contractors relating to audits, reviews, or ratings of contractor operations, systems, or performance. This should include developing a format for getting the information to the requesting offices.</p> <p>(3) DoD oversight activities to revise contract administration policies to seek and consider all relevant and credible information that might mitigate risks and the need for DoD oversight, before designing and applying direct DoD oversight of contractor operations. Oversight activities are defined to include CAOs, contract auditing agencies, contracting offices, technical activities, and item management offices.</p>	USD(A&T)
<p><b>Task 5-2B:</b> DCMC develops a process for contract administration offices to collect, store, and access data received from government agencies and/or contractors relating to audits, reviews, or ratings of contractor operations, systems, or performance. This should include developing a format for getting the information to the requesting offices.</p>	DCMC

<b>Task 5-2C:</b> All DoD oversight activities revise contract administration policies to seek and consider all relevant and credible information that might mitigate risks and the need for DoD oversight, before designing and applying direct DoD oversight of contractor operations. Oversight activities are defined to include CAOs, contract auditing agencies, contracting offices, technical activities, and item management offices.	CAEs DCAA
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## Resource Requirements

	Year 1	Total
<b>Man-Years</b>	1.8	1.8
<b>Dollars</b>	\$188K	\$188K

DoD Activities should encourage and facilitate contractor preparation and submission of Alternative Oversight Proposals (AOPs) (Recommendation 5-3).

TASK	OPR
<b>Task 5-3A:</b> USD (A&T) and DoD Comptroller shall instruct each Service Acquisition Executive, DCAA and DLA to submit implementation plans within 90 days of the DFARs change (Attachments 3 and 3A).	USD(A&T) DCAA
<b>Task 5-3B:</b> Each Component Acquisition Executive and DCAA within 90 days of the will finalize agency implementation plans. A Technical Advisory Group (TAG) will have an additional 90 days to merge all the Service/Agency plans into one DoD plan.	CAEs DCAA

## Resource Requirements

	Year 1	Total
<b>Man-Years</b>	3.4	3.4
<b>Dollars</b>	352K	\$352K

**DoD should establish pilot locations to test the viability of Contractor Self-Oversight through the use of designated representatives (Recommendation 5-4).**

**TASK****OPR**

<b>Task 5-4A:</b> USD (A&T) direct the Director of DLA and the Secretaries of the Military Departments to establish pilot locations for Contractor Self Oversight (Attachment 4). Further, the Commander of DCMC will be designated as the Office of Primary Responsibility (OPR). Selection should be based on the recommended criteria.	USD(A&T)
<b>Task 5-4B:</b> Director of DLA and the Secretaries of the Military Departments identify locations at which to conduct pilot demonstrations of Contractor Self-Oversight. Joint selection of pilot locations will ensure maximum commitment and support from both organizations. Locations should include both program managed and commodity procurement from each of the military services and DLA.	DLA Secretaries of the Military Departments
<b>Task 5-4C:</b> Commander of DCMC develop and execute a plan to implement a pilot program that will test the viability of the concept of Contractor Self Oversight. The plan will address the recommended elements. Both the Commander DCMC and the respective PEOs will evaluate the results of the pilot program and provide recommendations to the USD (A&T) regarding program expansion or termination. If the criteria for success/failure indicate termination of the pilot program, it will be documented and the pilot discontinued. Successful test results will activate the exit criteria, which will include publication of appropriate procedural guidance and directives (Attachment 5), identification of the type and sources of training, and determination of manpower requirements.	DCMC

## Resource Requirements

	Year 1	Year 2	Year 3	Total
Man-Years	4.1	3.0	2.0	9.1
Dollars	\$430K	\$314K	\$209K	\$953K

## Milestones

DoD contract administration oversight should be tailored based on a uniform risk assessment methodology (Recommendation 5-1).

ID	Task Name	Y1				Y2			
		Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4
1	1-A: USD (A&T) Memorandum								
2	1-b: Reinvention Lab Study								
3	Planning								
4	Perform Pilot Study								
5	Assess & Recommend								
6	FAR Change								
7	DLAD 5000.4 Chapter								
8	1-C: Implementation								

When conducting risk assessments, DoD activities should request, review, and consider all evidence (Government, contractor, and commercially available) that may mitigate perceived risks and the need for DoD oversight (Recommendation 5-2).

ID	Task Name	Y1				Y2			
		Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4
1	2-A: USD (A&T) Memorandum								
2	2-B: Develop Library Process								
3	2-C: Revise CAS Policies								

DoD Activities should encourage and facilitate contractor preparation and submission of Alternative Oversight Proposals (AOPs) (Recommendation 5-3).

ID	Task Name	Y1				Y2			
		Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4
1	3-A: USD(A&T) Memo (Implement)								
2	3-B: Consolidated Plan								

**DoD should establish pilot locations to test the viability of Contractor Self-Oversight through the use of designated representatives (Recommendation 5-4).**

ID	Task Name	Y1				Y2				Y3		
		Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3
1	4-A: USD(A&T) Memorandum	■										
2	4-B: Select Pilot Locations	■	■									
3	4-C: Ktr Self Oversight Pilot	■	■	■	■	■	■	■	■	■	■	■
4	Implementation Plan	■	■									
5	Training		■	■								
6	Pilot Implementation			■	■	■	■	■	■	■	■	■
7	Assess & Recommend									■	■	
8	Revise FAR									■	■	

## Metrics

This section puts forth notional metrics to measure the effectiveness of the recommendations.

*DoD contract administration oversight should be tailored based on a uniform risk assessment methodology (Recommendation 5-1).*

Customer satisfaction via surveys prior to and after implementation; number of events reflecting unsatisfied customers.

Number of reduced oversight areas.

Telephone and face-to-face interviews with contractors.

Number of reviews cancelled due to duplicative reviews.

Evidence that risk assessments are used to make staffing determinations.

*When conducting risk assessments, DoD activities should request, review, and consider all evidence (Government, contractor, and commercially available) that may mitigate perceived risks and the need for DoD oversight (Recommendation 5-2).*

*DoD Activities should encourage and facilitate contractor preparation and submission of Alternative Oversight Proposals (AOPs) (Recommendation 5-3).*

*DoD should establish pilot locations to test the viability of Contractor Self-Oversight through the use of designated representatives (Recommendation 5-4).*

Number of CAO repositories established versus total number of CAOs.

Number of withdrawals from CAO repositories.

Saved oversight costs when risks are mitigated using data from CAO repositories.

Number of AOPs generated / Number of contracts received.

Number of AOPs accepted / Number of AOPs generated.

Many years of oversight saved per approved AOP (Government savings - increased contractor costs).

Number of days to accept AOPs versus number of days to reject AOPs.

Number (per month) of valid Product Quality Deficiency Reports (PQDR) against the pilot contractor before and after pilot program implementation.

Comparison of pilot contractor defect rate, as measured by the number of valid PQDRs per total delivered product, to other similar suppliers.

Comparison of customer satisfaction surveys taken before and after pilot program implementation.

Number of manhours required for oversight of the pilot contractor before and after implementation. Hours measured should not include the non-recurring effort required to set up the pilot.

DCMC should also attempt to gather data regarding any cost savings accruing to the contractor as a result of the reduction of government oversight personnel in his plant. (Note: These savings should be net of any additional cost incurred by the contractor due to the additional Technical Compliance Designee duties.

## DRAFT MEMORANDUM

### MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS DIRECTOR, DEFENSE LOGISTICS AGENCY

Subject: Tailored Contract Administration Services

A goal of Defense Acquisition reform is to improve contract administration within the Department of Defense. To that end, the Deputy Under Secretary of Defense (Acquisition Reform) chartered a Process Action Team to develop strategies and specific plans for improving contract administration processes and procedures. The Team recommended that Department of Defense oversight should be tailored based on a uniform risk assessment methodology. The Team argued that managers can optimize contract administration oversight services while maintaining a high level of customer satisfaction. Their risk assessment approach considered contractor performance in the context of customer requirements. The results of the completed risk assessment become a tool for making decisions regarding contract administration oversight and resource allocation. Oversight services can be delivered more efficiently and effectively when managers focus resources in areas where the risk for potential problems exists and the impact is significant. After reviewing the Team's report, I am convinced that the recommendation merits further consideration. To implement this initiative I direct:

(1) The Director of the Defense Logistics Agency in concert with the Defense Contract Audit Agency expand the Reducing Oversight Costs Reinvention Laboratory to:

- Develop and execute a plan to implement a pilot study using the Contract Administration Services Process Action Teams recommended risk assessment process for tailoring oversight at selected "Reinvention Laboratory" contractor locations. The plan should be developed by \_\_\_\_\_.
- Execute the pilot study plan and coordinate the implementation of the risk assessment process at the pilot locations for one year.
- Evaluate the results of the pilot program and identify best practices. Make recommendations to the Under Secretary of Defense (Acquisition and Technology) regarding full implementation of the program.

(2) Each of the Military Services shall support DLA in this Pilot Study.

Signature Block  
USD (A&T)

ATTACHMENT 1

## DRAFT MEMORANDUM

### MEMORANDUM FOR DIRECTOR, DEFENSE CONTRACT AUDIT AGENCY

Subject: Tailored Contract Administration Services

A goal of Defense Acquisition reform is to improve contract administration within the Department of Defense. To that end, the Deputy Under Secretary of Defense (Acquisition Reform) chartered a Process Action Team to develop strategies and specific plans for improving contract administration processes and procedures. The Team recommended that Department of Defense oversight should be tailored based on a uniform risk assessment methodology. The Team argued that managers can optimize contract administration oversight services while maintaining a high level of customer satisfaction. Their risk assessment approach considered contractor performance in the context of customer requirements. The results of the completed risk assessment become a tool for making decisions regarding contract administration oversight and resource allocation. Oversight services can be delivered more efficiently and effectively when managers focus resources in areas where the risk for potential problems exists and the impact is significant. After reviewing the Team's report, I am convinced that the recommendation merits further consideration. To implement this initiative I direct:

The Director, Defense Contract Audit Agency coordinate with the Defense Logistics Agency (DLA) to expand the Reducing Oversight Costs Reinvention Laboratory to:

- Develop and execute a plan to implement a pilot study using the Contract Administration Services Process Action Teams recommended risk assessment process for tailoring oversight at selected "Reinvention Laboratory" contractor locations. The plan should be developed by \_\_\_\_\_.
- Execute the pilot study plan and coordinate the implementation of the risk assessment process at the pilot locations for one year.
- Evaluate the results of the pilot program and identify best practices. Make recommendations to the Under Secretary of Defense (Acquisition and Technology) regarding full implementation of the program.

Copy: DLA

Signature Block  
DoD Comptroller

ATTACHMENT 1A



## DRAFT MEMORANDUM

### MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS DIRECTOR, DEFENSE LOGISTICS AGENCY

Subject: Information Sharing and DoD Oversight

Our efforts to improve the efficiency of our acquisition policies and practices are beginning to pay significant benefits. The process action team studying contract administration reform recently suggested in part, that we can improve our efficiency and effectiveness simply by doing a better job of obtaining and considering existing information before deciding that DoD oversight of contractor operations is necessary.

Their recommendations make good sense. This letter implements their recommendations by directing:

(1) DoD buying and technical activities to provide copies of relevant future reviews of contractor operations, and other documents assessing or rating contractor performance or operations, to the cognizant contract administration office (see DLAH 4105.4, DoD Directory of CAS Components) within 30 days of completion. Release of classified and source selection sensitive information should be in accordance with agency procedures.

(2) the Defense Logistics Agency (DLA) to develop and implement within 120 days, a process for contract administration office collecting, storing, and accessing data received from government agencies and/or contractors relating to audits, reviews, or ratings of contractor operations, systems, or performance.

(3) all DoD oversight activities to revise contract administration policies within 60 days to require that contract administration personnel seek and consider all relevant and credible information that might mitigate risks and the need for DoD oversight, before designing and applying direct DoD oversight of contractor operations. [Oversight activities are defined to include contract administration offices (CAOs), contracting offices, technical activities, and item management offices.]

The data assembled will provide additional basis for contract administration offices' contractor risk assessments. The resulting risk assessments will permit contract administration offices to design oversight to counter perceived contract performance risks. By establishing contract administration offices as the focal points, data collection/storage effort is broken into manageable increments. This is a significant step enroute to re-engineering the acquisition process.

Copy: DCAA

Signature Block  
USD (A&T)

ATTACHMENT 2

## **DRAFT MEMORANDUM**

**MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS  
DIRECTOR, DEFENSE LOGISTICS AGENCY**

**SUBJECT: Implementation of Alternatives to Oversight Proposals**

DoD contractors often complain about the amount and degree of government oversight that they are subjected to during post award contract performance. I have enclosed appropriate segments of the Final Report of the Contract Administration Services (CAS) Reform Process Action Team (PAT) that examined methods to improve current policies and search out new ideas for the future. One of the new ideas resulting from the PAT was the development of a concept called Alternatives to Oversight Proposals (AOP). AOPs provide an avenue for contractors to recommend alternative methods to oversight. The process is further defined in the enclosure.

Each Service Acquisition Executive and the Director of the Defense Logistics Agency shall develop draft implementation plans for their area of responsibility. Each plan shall be developed by \_\_\_\_\_ and as a minimum contain the following:

- a. The criteria to be used in evaluating proposals.
- b. Metrics that measure the success of decisions to accept or reject proposals.
- c. Training on risk management for managers and employees.
- d. Process for re-engaging resources, if necessary.

Also, \_\_\_\_\_, a Technical Advisory Group consisting of members from Defense Contract Management Command (DCMC), Defense Contract Audit Agency, and each service, will facilitate the merging of all plans into one coordinated DoD approach. DCMC shall serve as the lead for the Technical Advisory Group.

Signature Block  
USD (A&T)

Copy: DCAA

ATTACHMENT 3

## DRAFT MEMORANDUM

MEMORANDUM FOR DIRECTOR, DEFENSE CONTRACT AUDIT AGENCY

SUBJECT: Implementation of Alternatives to Oversight Proposals

DoD contractors often complain about the amount and degree of government oversight that they are subjected to during post award contract performance. I have enclosed appropriate segments of the final report of the Process Action Team (PAT) that examined methods to improve current policies and search out new ideas for the future. One of the new ideas resulting from the PAT was the development of a concept called Alternative to Oversight Proposals (AOP). AOPs provide an additional avenue for contractors to recommend alternative methods to oversight. The process is further defined in the enclosure.

The Under Secretary of Defense for Acquisition and Technology directed each Service Acquisition Executive and the Director of the Defense Logistics Agency to develop draft implementation plans for their area of responsibility. It is important that the Defense Contract Audit Agency (DCAA) also prepare implementation plans for those areas where our services may be affected. Each plan shall be developed by \_\_\_\_\_ and as a minimum contain the following:

- a. The criteria to be used in evaluating proposals.
- b. Metrics that measure the success of decisions to accept or reject proposals.
- c. Training on risk management for managers and employees.
- d. Process for re-engaging resources, if necessary.

Also, \_\_\_\_\_, a Technical Advisory Group consisting of members from Defense Contract Management Command (DCMC), DCAA, and each service, will facilitate the merging of all plans into one coordinated DoD approach. DCMC is serving as the lead for the Technical Advisory Group.

Signature Block  
DoD Comptroller

Copy: DCMC

ATTACHMENT 3A

## DRAFT MEMORANDUM

MEMORANDUM FOR THE SECRETARIES OF THE MILITARY DEPARTMENTS  
DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Contractor Self-Oversight

The Contract Administration Services (CAS) Reform Process Action Team (PAT) studying contract administration reform recently recommended that DoD charter a pilot program to test Contractor Self Oversight (CSO). This is a concept of relying on designated contractor representatives in lieu of direct technical surveillance by DoD personnel. After reviewing the team's report, I am convinced the idea merits additional consideration. This letter implements the team's recommendations by directing:

(1) the Commander, Defense Contract Management Command (DCMC) to assume the lead, and serve as the office of primary responsibility (OPR) for the CSO pilot program, which will identify contractor representatives to surveil contractor operations and products to ensure compliance with contract technical, quality, and systems requirements.

(2) the Secretaries of the Military Departments to each identify a minimum of two contractor locations (one with Program Managed contracts, one without) where CSO concepts will be tested in a pilot program. Contractors must voluntarily agree to participate.

(3) the Director, Defense Logistics Agency (DLA) identify a minimum of two contractor locations where CSO concepts will be tested in a pilot program. Contractors must voluntarily agree to participate.

The purposes of the pilot program will be to (1) develop procedures for applying CSO, (2) develop criteria for assessing pilot program success/failure, including cost and performance factors, (3) test CSO procedures in a pilot environment, and (4) evaluate the efficacy of CSO. The OPR will plan and execute the pilot program in coordination with customers, culminating in a fully coordinated recommendation to USD (Acquisition and Technology) regarding pilot expansion or termination within 2 years.

This is potentially a key development enroute to reengineering acquisition.

Signature Block  
USD (A&T)

ATTACHMENT 4

(DRAFT)

**FAR 52.246-2 Inspection of Supplies-Fixed-Price.**

ALTERNATE III (JAN 95). If Contractor Self Oversight is contemplated, substitute paragraphs (b) and (c), below for paragraphs (b) and (c) in the basic clause:

(b) In lieu of routine, direct government oversight, the contractor shall provide written assurance of deliverable contract item quality. Designated contractor personnel nominated by the contractor and approved by the contract administration office will serve as Technical Compliance Designees (TCDs). The contractor will provide the contract administration office (CAO) written nominations for TCDs, within 21 days of contract award, but at least 7 days before the first shipment. Nominations shall outline nominee experience and qualifications, and include at least two letters of recommendation from current government personnel (military or civilian) with firsthand knowledge of the nominee, attesting to the nominee's skills, experience, and integrity. CAOs will evaluate contractor nominees promptly, and within 7 days, inform the contractor regarding the acceptability of nominees. Once accepted by the CAO, nominees will continue to be acceptable for contract duration unless the contractor replaces the nominee by the same procedure, or the CAO informs the contractor that the nominee is no longer acceptable. Accepted TCDs shall effectively ensure deliverable items conform to the contract technical and quality requirements, including completion of all required inspections and tests. The contractor shall ship each deliverable contract item with a Certificate of Conformance. Each Certificate of Conformance will be signed by the Technical Compliance Designee for that contract item.

(c) The Government reserves the right to periodically review contractor controls and to randomly inspect and test work to the extent necessary to determine the effectiveness of those controls. The Government also reserves the right to inspect and test all work called for by the contract, to the extent practicable, at all places and times, but only in response to specific evidence that contractor controls are inadequate. The Government shall perform inspections and tests in a manner that will not unduly delay the work. The Government assumes no contractual obligation to perform any inspection and test for the benefit of the contractor unless specifically set forth elsewhere in this contract.

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CHAPTER SIX

# PRE-AWARD SURVEY

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## Introduction

Federal Acquisition Regulation (FAR) Part 9.105-1 and Defense Federal Acquisition Regulation Supplement (DFARS) Part 209.106-1 require that contracting officers obtain sufficient information to determine contractor responsibility.

Pre-award information assists the contracting officer in evaluating the potential contractor's ability to successfully perform contractual requirements. Pre-award data available to the Procurement Contracting Officer (PCO) may include Defense Contract Audit Agency (DCAA) cost accounting data and commercially supplied performance, financial and technical data. In addition, the FAR and DFARS enable PCOs and buying activities to tailor pre-award survey requests to focus on specific areas. When needed, the PCO may request that the Defense Contract Management Command's (DCMC) cognizant contract administration office provide performance, financial and technical data, via Standard Form 1403, Pre-award Survey of Prospective Contractor.

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## Objectives

- Facilitate the prompt access of pre-award information.
- Identify commercial pre-award data sources.
- Reduce the cost/time required to make decisions about a contractor's responsibility.

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## Recommendation

Revise DFARS Part 209.106-1(a) to encourage the initial use of commercially supplied data in pre-award considerations of a contractor's responsibility, before requesting the Contract Administration Office (CAO) to perform a Pre-Award Survey (Recommendation 6-1).



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## Discussion

In depth, on-site government pre-award surveys are expensive, ranging in price from approximately \$500 to \$3,000. The average cost of a CAO conducted pre-award survey is \$1,500. In 1994 over 6,800 pre-award surveys were conducted for the total cost to DCMC of approximately \$10.2 million.

PAT interviews with representatives from commercial companies revealed that they seldom conduct in depth, on-site pre-award surveys for other than full scale, long term projects. They rely on evaluation of past performance data for current suppliers and they assess commercially available data for new suppliers.

Recent advances in data technology and compatibility have enabled commercial industry to develop relatively inexpensive methods for accessing data sources, including federal agencies. Today a wide array of financial, technical and performance information can be economically obtained from commercial data firms.

*Information is available on  
18.5 million companies*

Commercial evaluations can provide data about the contractor's facilities and operations, and information concerning top management's business background and the contractor's corporate relationships. For example, Dun and Bradstreet Information Services (D&B) is one of several data suppliers under contract with the government. D&B products include: Supplier Evaluation, Supplier Performance Review, and Critical Supplier Analysis (CSA). These reports draw upon information gathered from sources external to the company being reviewed, as well as from the company itself. Firms like D&B can provide financial statements, risk summaries, quality registration information, and performance measures. D&B's Small Business Sourcing File, for example, provides quick and easy access to information concerning more than 250,000 small businesses, including over 39,000 minority and 55,000 women-owned businesses. In all, D&B has profiles on over 18.5 million U.S. business locations.

***Critical Supplier Analysis  
can be delivered in 3-5 days  
at a cost of approximately  
\$400.***

Commercial data reports are available quickly and inexpensively. For example, the turn around time for the D&B CSA is 3 - 5 days, and the other reports are available immediately. The on-line reports range from \$30 - \$60 each and the CSA is about \$400. When the commercially supplied data obtained shows a negative trend, buying activities can request additional information in the form of a Pre-Award Survey from the appropriate CAO, on an exception basis.

The cost differential between the average DCMC pre-award survey (\$1,500) and the D&B CSA (\$400) is \$1,100. If D&B CSA services had been used in every case in 1994, instead of the 6,800 DCMC performed pre-award surveys, the government would have saved approximately \$6,630,000. While it is recognized that the service is not appropriate in every case, even if it were used in half of the cases the savings in time and dollars would still have been significant.

Commercial pre-award services are available through the GSA Federal Supply Schedule. Buying activities can begin to use this pre-award option immediately and receive the following information:

#### **Financial Analysis**

- General information about the company, its history, basic operations and Federal Government socioeconomic qualifications.
- Special financial events, bankruptcy filings, mergers, public filings, etc.
- Risk summaries, independent risk rating, and supporting rationale.
- Financial profiles, including key solvency and profitability ratios.
- Company to industry payment index (bill paying) and payment summary.

Performance Analysis

- An overall performance rating and specific data for:
  - timeliness
  - production
  - quality and International Standards Organization (ISO) 9000 registration
  - total cost
  - problem responsiveness
  - technical support
  - delivery
  - attitude

There are several companies on the current GSA Federal Supply Schedule under Contract #GS-00F-XF-1807 including:

- D&B, Falls Church, VA
- Information America, Atlanta, GA
- Accurate Credit & Collection Services, New York, NY
- Lide Credit, New York, NY
- Prentiss-Hall, Albany, NY
- Rialto Credit, Rialto, CA
- TRW, Orange, CA

To encourage the use of commercially supplied data prior to selecting the option of requesting pre-award survey services from DCMC, the PAT recommends the following regulation change.

Revise DFARS Part 209.106-1(a) to read as follows:

"(a) When the contracting officer is unable to make a determination of responsibility because of inconclusive information, the contracting officer should obtain additional information from sources such as suppliers, subcontractors and customers of the prospective contractor; publications; financial institutions; Government agencies; business and trade association; and/or General Services Administration (GSA) contracted commercial data firms.

(b) When such information indicates that a pre-award survey is needed and/or when the contracting officer cannot otherwise make a determination of responsibility, contact the cognizant contract administration office for additional pre-award survey information.

(c) When a pre-award survey is indicated, include the rationale in Block 23 of the SF 1403, Pre-award Survey of Prospective Contractor (General).

In addition to the change to the regulation, the PAT recommends that the attached letter (Attachment 1) advising of pre-award information sources be provided to buying activities.

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## **Comparison of Effects**

### **Benefits**

- Quick turn-around of pre-award survey requests.
- Significant DoD savings in pre-award survey costs.

### **Disadvantages**

- There could be occasions when a contractor is given an erroneous rating. However, this could also happen when a DCMC full pre-award survey is performed
- Buying activities do not reimburse DCMC for the cost of full scale pre-award surveys. It may not be readily understood that increased use of the GSA Federal Supply Schedule will result in a DoD savings.

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## **Risk Management**

- When commercially provided data is insufficient or reports negative information, the PCO can request a full scale pre-award survey prior to an award.
- The PCO can periodically compare information in the CAO pre-award survey reports with information provided by commercial firms, such as D&B.

## Implementation Plan

Recommendation Number	Task	OPR	Date after Approval
6-1	A. Revise DFARS Part 209.106-1 (a).	DDP	1st QTR
	B. Release a letter advising DoD procurement personnel to make full use of GSA, Federal Supply Services, Factual Data Reports contracts when accessing pre-award data. (See Attachment 1, Sample Letter).	DDP	1st QTR

## Milestones

Task Name	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1
Recommendation 6-1					
A. Revise DFARS Part 209.106-1 (a).		DDP			
B. Release a letter advising DoD procurement personnel to make full use of GSA, Federal Supply Services, Factual Data Reports contracts when accessing pre-award data. (See Attachment 1, Sample Letter).		DDP			

---

## **Metrics**

### **Pre-Award Survey Recommendation 6-I**

- Compare FY 96 DCMC pre-award totals with totals for the previous 4 years. Allowing for decreases in DoD contracting, analyze data to determine if there is a significant reduction in requests for CAO pre-award services.
- Using FY 96 GSA data, compare the number of requests for commercial pre-award data with totals for the previous 4 years. Allowing for decreases in DoD contracting, analyze data to determine if there is a significant increase in requests for commercial pre-award data.

**Attachment 1**

**SAMPLE LETTER**

**FROM:** Director, Defense Procurement

**TO:** Procurement Personnel

**SUBJECT:** Access of Commercial Sources to Acquire Pre-award Data

Federal Acquisition Regulation Part 9.105-1(c)(5) identifies sources other than Contract Administration Office (CAO) pre-award surveys to assist in the determination of contractor responsibility. Through recent advances in data technology and compatibility, commercial industry has developed and improved relatively inexpensive methods to access data consistent with pre-award needs. Information services, such as small business and minority owned business analysis, supplier financial evaluation, and performance and quality reviews, are available for virtually any firm in the United States. Specific contractor financial, technical and performance data is available immediately to DoD procurement officers through General Services Agency (GSA) Federal Supply Schedule, under Contract #GS-00F-XF-1807.

Buying activities are reminded that they should make full use of GSA, Federal Supply Services, Factual Data Reports and other sources in the determination of contractor responsibility, prior to requesting a CAO pre-award survey. DFARS Part 209.106-1 outlines specific guidance for the use of commercial sources of data in assisting the contacting officer to arrive at a decision regarding a contractor's responsibility.

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CHAPTER SEVEN

# ENGINEERING AND SOFTWARE

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## Introduction

Engineering and software surveillance includes those Contract Administration Services (CAS) functions associated with evaluating contractor technical planning activities and assessing the progress and problems associated with contractor development efforts. It includes ensuring that program offices and buying commands are informed of risks, status, problems, corrective actions, and forecasts concerning technical development efforts. These responsibilities are identified in Federal Acquisition Regulation (FAR) 42.302(a) (40)-(49).

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## Objectives

- Determine the degree to which Defense Contract Management Command (DCMC) customers (i.e., program offices and buying activities) require technical support.
- Recommend approaches to more effectively accomplish this support.

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## Recommendations

*Customer and DCMC negotiated CAS agreements.*

Provide guidance for negotiating CAS program support plans and Memoranda of Agreement (Recommendation 7-1):

- Revise Defense Logistics Agency Directive (DLAD) 5000.4, Contract Management.
- Revise Department of Defense Instruction (DoDI) 5000.2, Defense Acquisition Policies and Procedures.

*Technical certification, additional training availability, and alternate sources for specialized expertise.*

Improve engineering and software technical support to customers (Recommendation 7-2):

- Establish a technical certification program for engineers and software specialists.
- Participate in specialized training available to program offices and buying commands.
- Increase the availability of engineers with specialized expertise.

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## **Discussion**

*Customer assessments of DCMC services indicate problems.*

FY 1994 Activity Based Costing (ABC) data indicates that DCMC devotes about 11.5 percent of its organizational effort to performing technical and engineering tasks. The 1993 DCMC Customer Assessment Study determined that about 50 percent of program offices and buying activities believed DCMC's engineering support exceeded their expectations. About 20 percent, however, believed DCMC efforts fell short of their expectations. Customer concerns included the quality, completeness, timeliness and technical adequacy of DCMC support.

*Results of PAT customer interviews were consistent with DCMC surveys.*

The PAT conducted four Focus Group interviews with representatives from DoD program offices, inventory control points (ICPs) and buying activities. These representatives ranked the following as their "most important needs":

- Contractor performance measurement and evaluation.
- Technical reviews of contractor products.
- Program progress measurement and reporting.

- Ensuring that CAOs understood and were in harmony with program objectives.

The representatives further stated that CAO technical planning and technical capabilities often did not match program risks and needs. They believed that improved work force skills and assessments are needed.

*Provide guidance for negotiating CAS program support plans and Memoranda of Agreement (MOAs) (Recommendation 7-1).*

Provide guidance for negotiating CAS program support plans and Memoranda of Agreement (MOAs).

- Revise DLAD 5000.4, Contract Management.
- Revise DoDI 5000.2 Defense Acquisition Policies and Procedures.

*CAS technical resourcing needs to be customer driven.*

Planning for technical resources at the CAOs needs to be more customer driven. DLAD 5000.4 discusses the procedures for establishing MOAs, but these agreements are not enough to ensure resources match mission requirements. While the MOAs are valuable to define support to customers, there are two critical missing links. First, there is no direct relationship between agreements made with program offices and the resources needed to execute the agreements. Second, there is no stimulus to program offices to enter into MOAs with CAOs.

*Senior level program support plans could ensure more customer driven CAO resourcing decisions.*

For selected, critical and major programs, or those that have complex or unique requirements, it may be appropriate for DCMC command-level agreements to be reached with program offices. This will ensure that DCMC senior management is aware of program office expectations and that DCMC senior management has agreed to provide the necessary resources to satisfy agreements. An example of such an agreement is the F-22 Advanced Tactical Fighter (ATF). In this acquisition, the program manager expected

DCMC personnel to be active participants with program office and contractor personnel on Integrated Product Teams (IPTs). Upon entering F-22 Engineering and Manufacturing Development (EMD) phase, the F-22 program manager requested the DCMC Commander to agree on the level of CAS support. A senior-level F-22 Program Support Plan was signed which described the critical facets of DCMC program support. This plan has successfully focused CAS functions on F-22 program risk areas, while clearly documenting resourcing commitments and requirements needed to do the job.

*Program offices should initiate the CAO technical support agreements.*

Program managers should address the technical needs of the program as early as possible. Frequently CAOs have difficulty understanding program office technical desires until after a program is well underway and problems have become evident. To resolve this situation, DLAD 5000.4 and DoDI 5000.2 should be revised to include guidance to program managers and DCMC relevant to all planning for CAS support.

*Revise DLAD 5000.4 and DoDI 5000.2.*

Attachment 7-1 memorandum requests DCMC to draft the proposed language for revisions to DLAD 5000.4 and DoDI 5000.2. Incorporating these revisions into the documents should be accomplished at the next scheduled revision.

*Improve engineering and software technical support to customers (Recommendation 7-2).*

To improve engineering and software technical support to customers:

- Establish a technical certification program for engineers and software specialists.
- Participate in specialized training available to program offices and buying commands.
- Increase the availability of engineers with specialized expertise.

*DCMC does not have a formal program to maintain work force technical currency.*

In terms of design approaches and manufacturing planning, technology is rapidly advancing as defense products become obsolete often within 2-3 years or less. At present DCMC does not have a program to ensure its technical work force remains current with state-of-the-art practices or emerging technologies. The result is CAOs sometimes do not have enough engineers and software specialists with the right skills to respond to program office needs.

*Software acquisition is growing rapidly.*

In the area of software the need for technical currency is particularly acute. Over \$42 billion is projected to be spent by DoD in FY 95 on software acquisition. It is expected to be more than 20 percent of the entire DoD budget by the year 2008.

*Design specification problems are significant and expensive.*

More than \$21 billion was spent in FY 93 to correct errors, improve performance, and adapt changed requirements after the award of major weapons systems. Further, the Mission Critical Computer Resources Management Guide, published by the Defense Systems Management College (DSMC), states that approximately 40 percent of all software errors are attributed to problems with specifications. Approximately 28 percent of these problems are due to incomplete or erroneous specifications.

*Technical personnel need training.*

Technology specific training is critically needed to ensure CAS technical personnel can function effectively in support of program office CAS needs. There are many good software and engineering training programs available both within the Government and through industry that can provide the knowledge personnel need. However, the budget to fund the training is not keeping pace with current needs. DCMC has taken the initiative to develop a program that includes a variety of activities ranging from formal training courses to establishing a process to form agreements for long term fellowship assignments at the Software Engineering Institute (SEI). However, the program has not been approved and

funded as of the release of this report. Appropriate funding priorities and more initiatives within the framework of formal training and certification are needed to close the gaps in technological competency.

***CAO personnel participation in program office sponsored training and orientation activities would help maintain technological currency.***

Program office training offers an important alternative and additional support to DCMC developed training. Program offices often develop or acquire courses on the latest technology issues and on subjects of particular interest, e.g., program problems. Seldom are CAS personnel made aware of this specialized training or provided an opportunity to participate, even when space is available. CAO technical personnel can benefit greatly from this training. In addition, sharing CAS surveillance experiences at customer sponsored training and orientation activities would further support teaming efforts.

***Improved teaming with program offices is also a benefit.***

Technology specific training and orientation activities that may be available to CAS personnel include:

- Composites engineering
- Electronic Counter Measures (ECM)
- Radar Cross Section (RCS) testing
- Digital flight control systems
- Explosives handling
- Missile guidance systems

Procedures and practices that assure DCMC technical personnel are routinely invited to participate in program office sponsored training and orientations should be given an appropriate priority by program managers.

***Processes are needed to expand availability of specialized expertise.***

The reengineering and restructuring of the contractor and the DCMC organizations have caused, and will continue to cause, job skill and personnel imbalances. Contractors can easily correct this type of situation by contracting for a specific skill and specific number of personnel. DCMC's solution is not as

simple. Most often, DCMC is compelled to utilize available resources who might not have the requisite skills.

Suggestions to improve the DCMC's quality and responsiveness to engineering services (particularly for short duration or special needs) are:

- Establish and make available subject matter experts (SME)
- Identify a pool of engineering personnel for temporary assignment
- Contract out special short event requirements if necessary.

*Experts be made available for special or surge requirements.*

A program needs to be formalized establishing subject matter experts (SME). Official position descriptions for the incumbents should recognize the amount of time they are available to provide consulting services to other CAOs in DCMC. This would help ensure the appropriate priority is assigned to requests for assistance from other CAS elements.

Other DoD sources should be developed as potential sources for experts. The use of the experts in the service laboratories and the skills available in the various military reserve programs are additional possibilities. DCMC should develop a methodology to identify and request these services from the various organizations.

Surge capability is another need. At first glance surge capability would not be considered a necessity in today's downsizing environment. However, the gradual and continued loss of skilled personnel makes it more needed today than in the past. With the rapid decreases and increases of workload, flexibility to acquire resources is critical for customer satisfaction. A list of engineers, who will volunteer for three to six months temporary duty should be developed and maintained and a method for requesting these services should be developed. If resources do not exist within the agency, then a method needs to be developed to contract out for the skills.



Headquarters DCMC needs to integrate all of the above concepts into a viable program that can be easily applied by the CAO commander. The attachment 7-2 memorandum requests the Component Acquisition Executives (CAEs) to provide schedules and guidance to DCMC on available training and technical orientation on their programs. It further requests that DCMC develop the specific initiatives to increase the technical capabilities of the work force and make specialized personnel available.

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## **Comparison of Effects**

### **Benefits**

- Better team work between program offices and CAOs.
- Improved technical work force in the CAOs.
- Mobile pool of technically qualified CAS personnel to support short term requirements.

### **Disadvantages**

- Increased funding for TDY and training.
- Short term loss of SMEs or engineering pool personnel from home station.

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## **Risk Management**

The PAT identified the following risk:

- CAOs negotiate agreements which they are unable to fulfill.

The risk can be minimized by:

- Program support plans and MOAs tied to manpower and budget processes, either at local, district or headquarters levels.
- Formal training program to improve CAO capabilities to meet technical competency agreements.
- SMEs and personnel with unique skills to support short-term quantity/speciality and surge requirements for program offices.

## **Implementation Plan.**

Recommendation Number	Task	OPR	Date after Approval
7-1	A. Revise DLAD 5000.4 to include guidance for negotiating headquarters level program support plans	DCMC	2nd Qtr
	B. Revise DoDI 5000.2 to include guidance for negotiating all CAS planning agreements	USD(A&T)	2nd Qtr
7-2	A. Implement formal program to ensure technical currency of engineering and software personnel	DCMC	3rd Qtr
	B. Issue guidance for CAS technical personnel to obtain program office sponsored training and orientation	CAEs	1st Qtr
	C. Implement process(es) to expand availability of CAS technical experts when requirements exceed capability	DCMC	3rd Qtr

## Milestones

Task Name	Quarter 1	Quarter 2	Quarter 3	Quarter 4
<b>Recommendation 7-1</b>				
A. Revise DLAD 5000.4 to include guidance for negotiating headquarters level program support plans			DCMC	
B. Revise DoDI 5000.2 to include guidance for negotiating all CAS planning agreements			USD(A&T)	
<b>Recommendation 7-2</b>				
A. Implement formal program to ensure technological currency of engineering and software personnel				DCMC
B. Issue guidance for CAS technical personnel to obtain program office sponsored training and orientation		4/1		
C. Implement process(es) to expand availability of CAS technical experts when requirements exceeds capability				DCMC

## Impact to Resources

Program support agreements could increase or decrease resource requirements depending on the degree and type of technical services requested. Ultimately, the impact will be driven by customer confidence in DCMC technical support and numbers of future programs with negotiated program support agreements.

## Metrics

The PAT recommends the following metrics:

Task Accomplishment	
Implementing Strategy	Complete
DLAD 5000.4 Revised?	Yes/No
DoDI 5000.2 Revised?	Yes/No
Technical certification Program Implemented?	Yes/No
Memorandum to CAEs Signed	Yes/No
Expanded Engineering Availability Program Implemented	Yes/No

## **ATTACHMENT 7-1 Implementing Letter**

### **DRAFT MEMORANDUM**

#### **MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY**

**Subject: Recommendations for Initiatives to Enhance Technical Support to Program Offices**

The Contract Administration Services (CAS) Process Action Team (PAT) studying contract administration reform recommended that program managers should initiate senior level program support plans with Defense Contract Management Command (DCMC) when program characteristics are unique or critical. A negotiated agreement will help to ensure DCMC engineering and software support are focused on customer needs. Further, the guidance contained in DLAD 5000.4 and DoDI 5000.2 should be revised to include guidance for negotiating CAS agreements. I agree with the PAT recommendation and request you provide a draft of the proposed language to be included in DoDI 5000.2 NLT \_\_\_\_ .

The PAT further recommended DCMC establish a technical certification program to maintain the currency of engineering and software specialists, participation in program office sponsored training and orientation activities, and the implementation of a program to expand availability of engineering and software experts. These initiatives are recommended to improve technical support to the program offices. I agree with the recommendations and have requested the Component Acquisition Executives to support the initiative to include DCMC technical personnel in program office training and orientation activities, when it will benefit the programs.

Please provide a plan of action to accomplish these initiatives no later than 60 days from date of this memorandum.

**Signature Block  
USD(A&T)**

## **ATTACHMENT 7-2 Implementing Letter**

### **DRAFT MEMORANDUM**

#### **MEMORANDUM FOR COMPONENT ACQUISITION EXECUTIVES**

**Subject: Procedures for Including DCMC Technical Personnel in Program Office Sponsored Training and Orientation Activities**

The Contract Administration Services (CAS) Process Action Team (PAT) studying contract administration reform recommended that improvements in engineering and software support provided by Defense Contract Management Command (DCMC) technical personnel could be enhanced by including them in program office sponsored training and orientation activities. I agree with the recommendation and request you take action to provide the following:

- Provide scheduling for program specific technical courses or technology specific orientations.
- Coordinate with DCMC to establish procedures for requesting attendance to these activities.

Please complete the above actions no later than 60 days after the date of this letter.

**Signature Block  
USD(A&T)**

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CHAPTER EIGHT

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# CONSENT TO SUBCONTRACT

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## **Introduction**

In today's environment, subcontracts constitute a considerable portion of prime contract costs. Therefore, the Government's process to review subcontracts was considered a prime area for evaluation by this Process Action Team (PAT).

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## **Objectives**

- Identify the purpose of the review process,
- Evaluate the current need, and
- Recommend reengineering or process improvements with the overall goal of reducing Government and industry costs associated with contract administration while maintaining the integrity of the acquisition process.

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## **Recommendation**

### *Consent to Subcontract*

Revise Federal Acquisition Regulation (FAR) Parts 44.102 and 44.201, and Clauses 52.244-1, -2, and -3 to delete the subcontract consent requirement, unless specifically required by the Contracting Officer (Recommendation 8-1).

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## **Discussion**

In order to ensure the Government's interests are protected in the prime to subcontractor environment, the Government performs reviews of individual contracts and/or contractor's purchasing systems.

*Consent to subcontract is required when the*

Consent to subcontract is required under FAR Part 44.201 (not covered in DFARS) when the subcontract work is



*subcontract work is complex, dollars are substantial, or Government's interests are not protected by competition or contract type*

complex, the dollar value is substantial, or the Government's interests are not adequately protected by competition and the type of prime contract or subcontract. The FAR goes further to say that the requirements may be waived under fixed priced contracts when the contractor's purchasing system has been reviewed and approved. In spite of purchasing system approval, consent is still required in most other contracting situations depending on contract type, dollar value etc. For example, consent is required in cases of time and material contracts, and under cost type contracts, when the subcontract is for fabrication, purchase, rental, or installation of special test equipment in excess of \$10,000. In addition, consent is also required under cost type contracts, if the acquisition is for major systems, subsystems, or their components including fixed priced subcontracts that exceed either \$25,000 or 5% of the total estimated cost of the prime contract.

*An approved purchasing system should provide the Government reasonable assurance that its interests are protected*

In the case of a contractor having an approved purchasing system, the Government should be reasonably assured that its interests are protected; thus, the consent requirement is unnecessary. Requiring consent in this case merely places an unnecessary burden on the contract administration office.

*Subcontract consent requirements for contractors without approved purchasing systems places an administrative burden on the Government*

In the case of a contractor that does not have an approved system, the Government may not have reasonable assurance that its interests are protected. Current regulations require that Government consent be obtained prior to subcontract award with few exceptions. Although this requirement may reduce risk, the risk may not warrant the expenditure of funds associated with the administrative burden placed on the Government. In order to evaluate the risk, a telephone survey of 28 contract administration offices revealed that out of 868 subcontracts reviewed for consent (contractors without an approved system), only 10 or 1.15% were disapproved. The nature of the disapprovals were primarily administrative inadequacies. The risk does not appear to be significant.

*The cost of DCMC oversight is conservatively estimated at \$1.7 million annually*

According to the Activity Based Cost (ABC) data captured by the Defense Contract Management Command (DCMC), the cost of this oversight process is estimated at approximately

\$1.7 million annually. This estimate is considered conservative because it does not capture the expenses incurred outside DCMC nor does it include expenses incurred when the Government challenges a subcontract.

*Consent package valued at \$10,000 took four months -- resulted in ratification*

In one instance the PAT reviewed, the contractor and the Government disagreed as to whether a particular subcontract required prior consent under the FAR. Once the Administrative Contracting Officer made a determination that consent was required, it took approximately four months of meetings and correspondence to clarify misunderstandings. During this period there was a legal opinion, and additional data and analyses. Ultimately, the Government ratified the subcontract valued at \$10,000. This was quite clearly not only a very unnecessary exercise, but one that was expensive to both the Government and the contractor with absolutely no value added.

*Consent requirements should be limited to those situations that the Contracting Officer considers high risk*

In conclusion, the regulations that require the Government to provide consent to subcontracts should be revised. The risk does not justify the cost of this effort. Consent requirements should be limited to those situations that the Contracting Officer considers high risk. For example, the survey taken by the PAT revealed that a large majority of disapproved subcontracts were reported by the Supervisors of Shipbuilding. Accordingly, consent to subcontracts should be a special Government oversight requirement, determined by the Contracting Officer, and predicated on the nature of the work, concerns related to a specific contractor, or other high risk circumstances.

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## **Comparison of Effects**

### **Benefits**

- Minimizes a costly administrative burden on the Government and the contractor
- Reduces cycle time in the subcontracting process

### **Disadvantages**

- There is a slight increase in the risk of contractor's compliance with Government regulations

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## **Risk Management**

As indicated in the discussion, there will be a limited increase in risk if the Government eliminates the consent to subcontract process. In order to estimate the extent of increased risk, a telephone survey of twenty- eight (28) CAO offices was conducted. The following results were obtained:

**SURVEY OF ADMINISTRATION OFFICES:**

<u>Contractor System Status</u>	<u>Subcontracts Reviewed per Year</u>	<u>Subcontracts Disapproved Number</u>	<u>Subcontracts Disapproved Percent</u>
Approved	2968	7	0.24%
Disapproved	868	10	1.15%

The survey clearly indicates that with or without an approved purchasing system, the overall risk of a contractor issuing an unacceptable subcontract is minimal. However, it is recognized that there will be unique situations that are high risk. Therefore, Contracting Officers should have the discretion to include the consent requirement when deemed necessary on a case by case basis.

---

**Implementation  
Plan**

<u>Recommendation Number</u>	<u>Task</u>	<u>OPR</u>	<u>Date after Approval</u>
8-1	Revise FAR 44.102, 44.201 and clauses 52.244-1, -2, -3 to delete subcontract consent requirement unless specifically required by the Contracting Officer.	DDP	1st Qtr.

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## Milestones

i	Task Name	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter	2nd Quarter	3rd Quarter
		Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3
1	Revise FAR 44.102, 44.201 and clauses 52.244-1, -2, -3 to delete subcontract consent requirement unless specifically required by the contracting officer	DDP						

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## Metrics

The metric for this recommendation is the change in the regulations.

To evaluate the effectiveness of the change, a comparison between the number of subcontract consents performed and the cost savings of those consents before and after the changes would be appropriate.

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CHAPTER NINE

# ANNUAL ADPE LEASING REVIEWS

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## Introduction

This chapter focuses on the Defense Federal Acquisition Regulation Supplement (DFARS) Part 239.7303(b) requirement for contracting officers to perform annual reviews of contractor Automatic Data Processing Equipment (ADPE) leasing costs in accordance with Federal Acquisition Regulation (FAR) Part 31-205. The subject was identified as a reengineering target during the Process Action Team's review of customer requirements.

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## Objectives

- Identify the purpose of the annual ADPE lease review,
- Evaluate the current need for such reviews, and
- Recommend reengineering or process improvements to manage the risks associated with ADPE leases.

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## Recommendation

Eliminate the DFARS 239.7303 requirement for contracting officers to conduct an annual review of contractor ADPE leasing costs to allow risk management in data technology oversight. Replace the words "an annual review of leasing costs" with the words, "reviews of leasing as warranted" (Recommendation 9 -1).

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## Discussion

*The PAT selected mandatory ADP equipment leasing reviews as a target for reengineering.*

The Process Action Team (PAT) identified contract administration services (CAS) and the customers for those services. It determined which activities are most important to customers and selected targets for reengineering or total elimination. One of those targets was the annual review of



ADP equipment leasing costs. ADPE stands for Automatic Data Processing Equipment, a term no longer in general use. Current usage is "computer hardware" or "electronic data processing equipment (EDPE)." For consistency, this chapter will use the expression ADP equipment in all cases except for direct quotes.

*FAR 31.205-2 requires contractors to obtain ACO approval for ADP equipment leasing arrangements on an annual basis.*

FAR 31.205-2 and DFARS 239.7305 require contractors to demonstrate annually that leasing their ADP equipment is the least costly alternative for the government. ADP equipment leasing costs are allowable for recovery under Government contracts only to the extent that they are reasonable and necessary and do not give rise to a material equity. When 50% or more of the total ADP equipment leasing cost will be allocated to Government contracts and the total ADP equipment in a single contractor segment exceeds \$500,000, the contracting officer must approve the leasing arrangement.

*ADP equipment reviews evaluate government contractors lease versus purchase plans.*

Annual Government reviews of contractor (ADP) equipment leasing costs are largely compliance tests of contractor lease versus buy methodologies. Contract administration personnel evaluate contractors' annual submissions for requirements, cost effectiveness, and efficient use of contractors' ADP equipment in accordance with the FAR and the DFARS.

*ACOs have discretion to conduct ADP equipment reviews for reasonableness or allocability in addition to the mandatory reviews required by FAR.*

ACOs have discretion to conduct ADP equipment reviews for reasonableness or allocability in addition to the mandatory reviews required by FAR Part 31.205-2. Many ACOs use the authority in FAR Part 31.210-3 and FAR Part 31.210-4 to expand the scope of the mandatory ADP equipment leasing reviews to include higher risk areas, such as software development. In practice, Government ADP equipment review teams also identify contractor operational inefficiencies and make recommendations to ACOs for correction and improvement.

*"... the ADP environment in the 1960s was a completely different world ..."*

The current requirements for separate mandatory annual ADP equipment reviews are antiquated, covered by existing regulations and ripe for elimination. Requirements for ADP equipment reviews were established generations ago in computer terms. The DoD IG report number 95-012, entitled Contractor Software Charges, (Department of Defense Inspector General, 1994) made the following observation regarding the state of ADP technology:

"In 1967, ADP leasing costs represented the largest ADP cost element and risk to the Government because computer hardware was extremely expensive and because software was a relatively minor cost. For example, the cost for a 'small' desk-top computer was approximately \$50,000. . . the ADP environment in the 1960s was a completely different world . . . "

*Computers today are as necessary to the daily conduct of business as telephones, copiers and FAX machines.*

Far from being "special" equipment, ADP equipment is a mandatory tool in any modern business environment. One PAT member received a report that took exception to computer terminals standing idle on desks while no one was sitting at them. This was once a valid finding when computers were still behemoths. Today, in spite of regulatory thresholds for review, such a recommendation is difficult to defend or enforce. Computers today are as necessary to the daily conduct of business as telephones, copiers and FAX machines.

*Data technology costs are interrelated and should be considered as a whole.*

The issues compelling separate treatment of ADP equipment lease costs from other computer costs, such as software development costs, have been overtaken by events. Data technology costs are interrelated and should be considered as a whole, not segmented into leased hardware, purchased hardware, internally developed software, purchased software, electronic data interchange, robotics or other subcategories.

*The cost benefit ratio of ADP equipment reviews is low.*

The cost benefit ratio of ADP equipment reviews is low. According to the DLA/DCMC Activity Based Costing Review (Defense Contract Management Command, 1994), ADP equipment reviews cost over \$1 million a year to conduct. The DLA Focus on Our Customers' Ultimate Satisfaction (FOCUS)

report (Defense Contract Management Command, 1993) showed that inventory control point customers and other customers considered ADP equipment reviews relatively unimportant. Only those who perform ADP equipment reviews rated them of medium importance. Also, some individuals confuse the need for electronic data interchange (EDI) or software surveillance with the need for ADP equipment lease reviews. This potential misunderstanding suggests that the need for ADP equipment reviews could be even lower than reported in the FOCUS study.

*The DoD IG found the current regulatory focus on ADP equipment at the expense of software to be obsolete.*

The DoD IG Report (Department of Defense Inspector General, 1994), presents the results of a review undertaken because "computer software costs, as compared with hardware costs, have increased during recent years." It states that "Advances in ADP technology during the past two decades have rendered current Federal and DoD regulations at least partially obsolete." It notes that current regulatory requirements prevent ADP teams from performing an adequate risk assessment since resources must be directed to the annual review of leasing costs.

*Necessary regulatory changes recognized as early as 1987 have yet to be made due to the complexity of the issues.*

According to the IG report (Department of Defense Inspector General, 1994), various fixes to this state of affairs have been proposed and deliberated since 1987, but no regulatory changes have resulted in spite of the acknowledged need for change. Presumably, this is because the deliberative process cannot keep pace with the rapid evolution of computer technology -- both hardware and software. The PAT agrees that changes to the FAR are in order and the current equipment requirement impedes effective general data technology surveillance. The PAT believes that its recommendation to eliminate the mandatory requirement and allow ACOs/PCOs to exercise their judgment will protect the Government's interest during the regulatory deliberation process recommended in the IG report.

*Contractors must still submit annual ADP equipment leasing justifications.*

The PAT does not recommend a change to the FAR 31.205-2 requirement for contractors to submit an annual justification for their ADP equipment leasing costs. This submission is needed for the contracting officer to assess contract risk and allocate oversight resources. The PAT's recommendation is

limited to relieving the confining annual requirement for ADP equipment leasing reviews by the government.

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## **Comparison of Effects**

### **Benefits**

Realigns scarce technical resources to higher risk areas

- Reduces non-value added reviews
- Saves contractor and Government paperwork
- Encourages commercial practices
- Rewards quality contractors
- Empowers ACOs to focus on risk
- Increases cost benefit ratios of reviews

### **Disadvantages**

Risk of waste or increased costs if Government contractors lease ADP equipment where it would have been cheaper to purchase.

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## **Risk Management**

ACOs should evaluate the need for ADP equipment leasing reviews using risk management practices such as indicators from should cost reviews. Mandatory annual reviews currently required by the DFARS constitute risk avoidance, not risk management. Contractors with acceptable lease versus purchase controls, approved purchasing systems, or contractors that abide by the purchasing system chapter of the Contractor Risk Assessment Guide (CRAG) could be considered for less oversight. Government resources would focus on contractors and areas with higher risk of waste or overcharging.

## Implementation Plan

Recommendation Number	Task	OPR	Date After Approval
9 - 1	Revise DFARS 239.7303, Review and Approval of Leasing Costs, to eliminate requirement for ADPE lease vs. buy reviews. Replace the words, "... an annual review of leasing costs" with the words, "... reviews of leasing costs as warranted."	DDP	2nd QTR

## Milestones

Task	1	2	3	4	5	6	7	8	9	10	11
Recommendation 9 - 1											
REVISE DFARS 239.7303 to eliminate ADPE lease vs. buy review requirement						DDP					

## Metrics

The metric for this recommendation is the change in the regulation.

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CHAPTER TEN

# PRODUCTION SURVEILLANCE

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## Introduction

Contract Administration Service (CAS) functions are significantly involved in gathering, analyzing, and communicating information about the contractor's processes. In support of these CAS functions, this chapter will address improvements in automated information systems. The emphasis of the recommendations will be to use automated information systems to gather and communicate data. Ultimately this will shift Department of Defense (DoD) resources to the more critical CAS function of data analysis.

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## Objective

To reengineer and improve processes used to provide contract administration products and services to program managers and buying commands.

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## Recommendations

### *Deploy ALERTS*

Accelerate the deployment of the Advanced Liaison Emergent Risk To Schedules (ALERTS) software program throughout Defense Contract Management Command (DCMC) to be completed by close of fiscal year (FY) 95 (Recommendation 10-1).

### *Expand ALERTS Capability*

Expand ALERTS to include Program Integration, Support Program Integration and Subcontracting Management functions (Recommendation 10-2).



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## **Discussion**

The CAS functions highlighted in this chapter involve gathering, analyzing, and communicating information. Effective reengineering of these functions will focus on the automation of the information gathering and communication processes.

The contract administration function of production surveillance involves several elements. For example:

- Forecasting deliveries from the contractor's facility,
- Analyzing the contractor's delivery forecast,
- Communicating status to the customer in a timely manner,
- Monitoring the contractor's processes, and
- Participating in numerous reviews.

These elements add up to two time sensitive tasks:

- Knowing what is happening at the contractor's plant.
- Keeping the customer informed in a timely manner.

In addition, the CAS function of subcontractor surveillance (subcontracting management) is similar, albeit at the subcontractor, rather than the prime contractor level.

Contract Administration Office (CAO) sources were asked to offer an estimate of manhours expended performing these functions. They indicated that gathering and communicating information consumes 40 to 50% of the total hours expended in production surveillance, program integration, and subcontract management. All agreed that a state-of-the-art automated information system would increase efficiency and could reduce by up to 50% the resource expenditures dedicated to these functions.

*Customers want on-time delivery.*

FY93 Focus on Our Customers' Ultimate Satisfaction (FOCUS) Survey data indicated that customers gave top priority to contract delivery status. Approximately 20% of the customers surveyed expressed dissatisfaction in this area. Specific comments made it clear that customers want to know **in advance** when contractors cannot meet the scheduled delivery of products or services. As a result of FOCUS Survey data, DCMC has identified this concern as one of their top nine process improvement initiatives.

*Accelerate and expand the ALERTS software program.*

The ALERTS software program, developed by hands-on users at Defense Contract Management Area Office (DCMAO) Chicago, provides instant access to contract and line item data, and has record keeping ability. The ALERTS program represents a readily accessible, short-term improvement over current automated systems. It requires a Local Area Network (LAN), equipped with Saber Menu and Windows Software, and works on a 386 or higher Personal Computer (PC).

The ALERTS program provides communication capabilities for team members located at remote sites and generates tailored status reports for CAO customers. The ALERTS program allows system users (customers and CAS personnel) to send an "alert" (a message requesting action or information) directly to another team member's PC.

This system has been tested at DCMAO Chicago and is a proven valuable tool. DCMC issued a letter dated August 18, 1994 to field Commanders requesting the ALERTS program be deployed throughout DCMC. The Chicago team was tasked with providing the necessary training and assistance to make all CAOs self-sufficient in the maintenance of their own ALERTS system. Unfortunately, neither resource requirements nor a timeline for deployment of ALERTS have been identified.

*District Deployment Status*

Defense Contract Management District West (DCMDW) was requested to appoint a District focal point to coordinate the

activities of the Chicago team. DCMC requested Districts North and South to contact District West to arrange a demonstration and establish a deployment plan for ALERTS. At present, deployment is moving slowly primarily due to each District having different LAN systems.

Current District Deployment Status is as follows:

**District West:**

- Deployment Plan due by Feb 95.
- Deployment schedule to start Apr 95.
- Completion date unknown.

**District North:**

- One test site for Windows based LAN scheduled in near term will have ALERTS capability.
- Deployment Plan schedule unknown.

**District South:**

- Five test sites with Windows based LAN and ALERTS will be deployed in FY 95.
- Balance of sites in FY 96.

The PAT fully supports this DCMC initiative. Deploying the ALERTS program will be an effective interim step, until further Standard Procurement System (SPS) and Mechanization Of Contract Administration Services (MOCAS) functionality is available. To ensure prompt placement of this valuable tool in the field, the PAT recommends the ALERTS program deployment be accelerated for completion by close of FY 95.

In addition, the PAT recommends that DCMAO Chicago be encouraged to investigate expanding the ALERTS program to include other CAS programs, e.g., Program Integration, Support Program Integration, and Subcontract Management.

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## Comparison of Effects

### Benefits

- The ALERTS program provides timely information to our customers in a format they understand.
- ALERTS is user friendly and requires minimal training.
- ALERTS provides instant access to contract and contract line item number (CLIN) data.
- Reduces contractor delinquencies.
- Reduces unit cost for production surveillance.

### Disadvantages

- May require standardization of hardware and software requirements.
- Some CAOs may have other tools providing similar data support and be resistant to change.

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## Implementation Plan

Recommendation Number	Task	OPR	Date After Approval
10-1	A. Accelerate deployment of ALERTS throughout DCMC	DCMC	2nd Qtr

10-2	A. Expand ALERTS to include Program Integration, Support Program Integration and Subcontract Management	DCMC	3rd Qtr
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## Resource Requirements

Resource requirements to deploy ALERTS are unknown at the present time. DCMDW is developing a deployment plan which is scheduled to be completed in February 1995. This plan is expected to include those costs associated with training, software, maintenance and possibly some hardware.

## Milestones

Task Name	1	2	3	4	5	6
<b>Recommendation 10-1</b>						
Accelerate deployment of ALERTS throughout DCMC.			DCMC			
<b>Recommendation 10-2</b>						
Expand ALERTS to include Program Integration, Support Program Integration and Subcontract Management				DCMC		

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## **Metrics**

- Identify the number of CAO's on-line with ALERTS.
- Identify the number of contractors with delinquencies.
- Determine the percent of those delinquencies that have advance notification.
- Using SPS/MOCAS stratify the above two metrics for those contractors covered by ALERTS and those contractors not covered by ALERTS.
- Track reduction in unit cost for production surveillance, as identified in Activity Based Cost (ABC) Management data.

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CHAPTER ELEVEN

# WARRANTIES

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## Introduction

*Increased emphasis on  
warranty management and  
administration*

The area of Warranties is typically rated as an area of high importance by the customer (buying activity, program office), from the standpoint of contract administration. The PAT postulates that warranty administration will continue to increase in significance following acquisition reform, partly due to increasing emphasis on product performance/performance specifications, product quality, and customer satisfaction. Consequently, warranty administration is included in the list of re-engineering targets as an area of high payoff potential.

*Extensive research conducted*

For this target area, the approach taken included reviewing: the 1993 FOCUS assessment data; Federal Acquisition Regulation Case 94-790, regarding the acquisition of commercial items; the "Report on the Administration of Department of Defense Weapon System Warranties", October 1992; researching industrial and commercial publications; and conducting discussions with personnel from OSD, HQ DCMC, and other Government agencies.

*Report highlights deficiencies*

A study conducted for the office of the Director of Defense Procurement (DDP) in October 1992 highlighted deficiencies in the warranty administration capabilities of the services. While specific recommendations to improve these deficiencies were not made, the findings did reveal trends relating to systemic problems with Government warranty administration programs. Based on the relevance of the DDP report, the PAT has included the study findings in the warranty recommendations.



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## Objective

The objectives of these recommendations are to revise current warranty practices and/or incorporate commercial warranty practices and features. The ultimate goals are to:

- Reduce and/or eliminate unnecessary, cumbersome procedures related to the development, management, and administration of contract warranties.
- Alter oversight controls by incorporating commercial warranty practices and features.

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## Recommendations

### *Review warranty practices*

Review current DoD warranty practices for possible revision or elimination, and adopt commercial warranty practices as practicable (Recommendation 11-1).

### *Incorporate commercial warranty features*

Review and incorporate simplified commercial warranty features into Government warranties as practicable (Recommendation 11-2).

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## Discussion

### *Review warranty practices (Recommendation 11-1)*

Some of the Government's current warranty practices do not contribute to an effective management and administration of the warranty program. The practice of Government "ownership" of the system configuration, as an example, places a heavy burden on the Government buying activity and contract administration office. In some cases, resource problems and systems deficiencies prevent the CAO from becoming actively involved in the warranty administration process. The Government's warranty management and

administration practices, therefore, need to be closely scrutinized for elimination, revision, and/or adaptation to commercial warranty practices.

### *General warranty practices*

The following is a list of general warranty practices which illustrate some of the differences between the Government and commercial sector approaches to the establishment and execution of warranty requirements. (The Government warranty practices were derived from the DCMC Process Manual Chapter on Warranties and Air Force Manual 64-110, dated May 13, 1994).

PRACTICE	DoD	Non-DoD
Warranty costs priced/negotiated separately	X	
Customer owns configuration	X	
Supplier owns configuration		X
Product marked with warranty information	X	X
Warranty "need determination" made by customer	X	X
3rd/4th party contract review of warranty clause	X	
3rd/4th party concurrence of repair action	X	
3rd/4th party verification of condition of returned item	X	
3rd/4th party baseline evaluation of warranty process	X	
3rd/4th party monitoring of supplier's repair activity	X	
3rd/4th party review of supplier's warranty process	X	
3rd/4th party communication with supplier and customer	X	
Utilization of repair contracts	X	

System in place to handle customer complaints	X	X
System in place to collect and analyze product performance data	X	X
Customer establishes warranty terms and conditions	X	
Supplier establishes warranty terms and conditions		X

\* 3rd/4th party refers to the buying activity/CAO, respectively

Several of the Government practices identified add relatively little value and/or are complex in nature, complicating the Government's ability to manage risk when administering warranties.

The following warranty practices, while relatively easy to perform, add little value to warranty administration and should be considered for revision or elimination:

- 3rd/4th party contract review of warranty clause
- 3rd/4th party concurrence on repair action
- 3rd/4th party verification of condition of returned item
- 3rd/4th party baseline evaluation of warranty practice
- 3rd/4th party monitoring of contractor's repair activity
- 3rd/4th party review of contractor's warranty process

The following warranty practices, while relatively complex in nature to perform, add substantial value to the warranty administration process and should be considered for refinement/improvement action.

- Warranty "need determination" made by customer
- System to handle customer complaints
- System to collect and analyze product performance data
- Customer establishes warranty terms and conditions

***Incorporate commercial  
warranty features  
(Recommendation 11-2)***

The content of warranty clauses in Government contracts varies widely between the military services as well as between individual buying activities. Review of specific contract warranty clauses to determine the role of the CAO, therefore, is very critical. In comparison to commercial warranty features, the language of DoD warranty clauses for non-commercial items is very detailed and complex. The content of DoD warranty clauses, therefore, should be simplified to make the job of warranty management and administration less cumbersome.

***Features of consumer  
product warranties***

A sampling of sixteen consumer product warranties was made and a number of common warranty features were identified. An evaluation of each commercial warranty feature was made to determine the potential applicability to non-commercial warranties, by comparing the expected difficulty of implementation versus their payback potential. All but five of the features were evaluated as being low on difficulty of implementation, with relatively high payback potential.

Based on this assessment, the following consumer product warranty features, with the highest payback potential, should be considered for non-commercial warranty application:

- Include safety precautions regarding the use and handling of the product
- Provide instructions on how to handle defective products for return and repair
- Include list of service centers for product repair
- Include step-by-step procedure to check non-functioning product
- Include operator instructions for use of product
- Include name, address, and telephone number of supplier, including "1-800" number
- Include parts list for product

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## **Comparison of Effects**

### **Benefit**

#### ***Review warranty practices (Recommendation 11-1)***

Reviewing the Government's general warranty practices to identify candidates for exclusion or revision, and incorporating applicable commercial warranty practices, will improve the process for management and administration of DoD warranty programs.

### **Disadvantage**

#### ***Review warranty practices***

The drawbacks to this recommendation are dependent on the specific warranty practices selected for revision, elimination, and/or adoption. While the risk of adopting most of these recommendations is probably low, there is the possibility that the magnitude of any impacts could change over time as conditions within the acquisition environment change.

### **Benefit**

#### ***Incorporate commercial warranty features (Recommendation 11-2)***

Incorporating commercial warranty features into DoD warranty clauses will simplify the process of warranty management and administration.

## Disadvantage

### *Incorporate commercial warranty features*

Incorporating commercial language into DoD warranty clauses could result in ambiguities in the warranty requirements for more complex systems.

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## Risk Management

### *Review warranty practices*

The risk associated with Recommendation 11-1 is considered moderate. Improving current DoD warranty practices and implementing commercial warranty practices and features will improve the overall administration of DoD warranty programs.

### *Incorporate commercial warranty features*

The risk associated with Recommendation 11-2 is considered moderate. Improving current DoD warranty practices and implementing commercial warranty practices and features will improve the overall administration of DoD warranty programs. discussion

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## Implementation Plan

### **Recommendations II-1 and II-2**

The USD (A&T) should charter a DoD Process Reform Team (PRT) within the office of the Deputy Under Secretary of Defense for Acquisition Reform to review and implement the recommendations relative to commercial warranty practices and features. A pilot program and contract, preferably a spares contract, should be selected to test the recommendations. (A spares contract is recommended because it will be less complex than a major weapon system program/contract.)

A proposed charter for the PRT is included in Attachment 1.

Recommendation Number	Task	OPR	Date after Approval
11-1/11-2	A. Charter OSD PRT	USD (A&T)	1st Qtr
11-1/11-2	B. Conduct PRT investigation	DUSD (AR)	1st Qtr
11-1/11-2	C. Review PRT recommendations for implementation	USD (A&T)	5th Qtr

## Milestones

### Recommendations II-I and II-2

ID	Task Name	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	Q10	Q11	Q12	Q13	Q14
1	Charter OSD PRT	◆													
2	Conduct PRT investigation														
3	Review PRT recommendations for implementation					◆									

## Metrics

- Was the Process Reform Team (PRT) chartered?
- Did the PRT complete their activities and make recommendations?

## ATTACHMENT 1

### PROPOSED CHARTER PROCESS REFORM TEAM (PRT) WARRANTIES

#### I Background

Key to the success of DoD contractual warranties is effective development and administration of warranty requirements. Increasing emphasis on performance specifications has rapidly expanded the importance of warranties on DoD contracts. Adding impetus to the need for better administration of warranties is the heightened demand by the public for smaller Government and more efficient use of taxpayer dollars.

The regulations which define the requirements for DoD warranties, as well as current warranty practices and features, must be continuously evaluated to ensure the Government is receiving maximum value from warranty programs. Several studies have been conducted to investigate problems relative to warranty administration. These studies have identified many of the symptoms and some of the possible root causes associated with warranty administration. However, specific recommendations for improvement of warranty administration practices and creative alternatives to perform warranty administration have yet to be fully explored.

#### II Purpose

A Process Reform Team (PRT) will further investigate improvement opportunities and creative alternatives to DoD warranty administration, using commercial warranty practices and features to the greatest practicable extent.

#### III (Recommended) Task Objectives

The PRT will:

- Review findings of the "Report on the Administration of Department of Defense Weapon System Warranties", Office of the Director of Defense Procurement, October 1992.
- Review current DoD and commercial warranty practices and features including, but not limited to, those practices and features identified in the CAS PAT Report of February 1995.



- Develop a methodology to select warranty practices and features that contribute to effective warranty administration.
- Select a pilot program/contract to incorporate and test selected warranty features and practices. Designate a "control" program/contract, with standard warranty practices and features, to use as a basis of comparison.
- Incorporate revised warranty practices and features into pilot program/contract.
- Track the amount of time spent on warranty administration for both the pilot program and the control program.
- Analyze and compare the results of the pilot program and the control program.
- Report the results of the pilot test and make recommendations for improvement and commercial adaptation as appropriate.

#### IV Resources

The PRT will consist of representatives from DoD buying activities and contract administration offices, and should include personnel with expertise in contracting and warranty administration.

#### V Schedule

A maximum of 365 calendar days is recommended to complete the task objectives. The PRT will begin its efforts upon approval of the OSD CAS PAT report.

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CHAPTER TWELVE

# GOVERNMENT PROPERTY

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## Introduction

Government property in the possession/control of Department of Defense (DoD) contractors has an estimated value of \$90 billion. This report will provide recommendations to improve the process of managing Government property through elimination of non-value added effort and risk management. The recommendations are based upon completed and ongoing initiatives by Government and industry. The report recommendations will facilitate these initiatives and reflects coordination with the Federal Acquisition Regulation (FAR) Part 45 Rewrite Team established by the Director, Defense Procurement (Spector, 1994). This coordination resulted in the recommendations in this chapter, and the assignment of Process Action Team (PAT) members to the FAR Part 45 Rewrite Team.

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## Objective

The objective of this effort is to eliminate duplication and unnecessary procedures, decentralize decision making and eliminate unnecessary layers of review and approval. Recommendations will consider and reflect the effects on interrelated processes such as contract closeout, and overhead rates. The specific areas addressed are:

- Disposition of scrap Government Property.
- Management of low value Government property.

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## Recommendations

### *Scrap Disposition Authority*

Authorize Plant Clearance Officer (PLCO) to decide disposition of assets in scrap condition, without limited screening through GSA (Recommendation 12-1).

### *Tracking Threshold*

Remove tracking and monitoring requirements for low value Government property (less than \$1500). Further, contractors

shall be responsible for replacement value of such property that is lost, damaged, or destroyed through other than normal wear and tear (Recommendation 12-2).

For the purposes of this recommendation, the definition for low value Government property will consist of Special Tooling (ST), Special Test Equipment (STE), and plant equipment with an acquisition cost of \$1500 or less. Real property, agency peculiar property, sensitive property, material, and any property identified by the contracting officer as critical or mission essential are specifically excluded.

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## Discussion

### *Scrap Disposition Authority (Recommendation 12-1)*

**Authorize Plant Clearance Officer (PLCO) to decide disposition of assets in scrap condition, without limited screening through GSA.**

In addition to scrap property, disposition requirements of serviceable and usable property were also reviewed by the PAT. However, time constraints precluded adequate research in this area. The PAT recommends the FAR Part 45 Rewrite Team, with support from Defense Logistics Agency (DLA), consider this potentially productive area in their efforts (See Appendix C, Subjects for Further Study). Based upon the above, the recommendation contained herein applies only to scrap property.

Currently, the PLCO reviews a contractor's determination that items are in scrap condition, and if necessary, physically inspects the property involved. A formal limited screening process by the PLCO to General Services Administration (GSA) is used to decide if the unsalvageable property is of interest to other parties. If the items are of no interest, the PLCO issues instructions for the contractor to dispose through established procedures.

The formal limited screening of scrap through GSA is accomplished by the PLCO establishing a plant clearance case and forwarding the contractor prepared inventory schedules to GSA. The scrap items are listed by line item on the inventory schedules so they can be individually identified

and subsequently reutilized. The PAT reviewed a random sample of plant clearance cases forwarded to GSA for limited screening. The sample was selected from the Defense Plant Representative Offices (DPROs) United Defense LP San Jose, Lockheed Sunnyvale, Textron Lycoming Stratford, Westinghouse Baltimore and Defense Contract Management Area Offices (DCMAOs) San Francisco and Detroit. The plant clearance case sample data is illustrated in the following chart:

## PLANT CLEARANCE CASES

### (GSA LIMITED SCREENING)

Sample Office	Forwarded	Reutilization
DPRO United Defense LP San Jose	364	0
DPRO Lockheed Sunnyvale	45	0
DPRO Textron Lycoming	46	0
DPRO Westinghouse Baltimore	45	0
DCMAO San Francisco	169	0
DCMAO Detroit	15	1
<b>Total</b>	<b>684</b>	<b>1</b>

The DPROs and DCMAOs forwarded 684 plant clearance cases to GSA for limited screening. Only one case had an item reutilized. This equates to over 99 percent of the cases being returned with a no interest response.

The sample data reflects that the effort of determining an interest in scrap items is not warranted. Accordingly, the contractor should request a pre-inventory scrap determination in accordance with the Defense Federal Acquisition Regulation Supplement (DFARS) 245.607-1 (a)(i); if approved by the PLCO the scrap items should be dispositioned without the establishment of a plant clearance case and limited screening through GSA (DoD, 1994).

In addition to FAR/DFARS revisions, implementation of this recommendation will require a change to, or a deviation, for DoD, from the Federal Property Management Regulation (FPMR), 41 C.F.R. 101. The GSA promulgated the FPMR pursuant to the authority delegated to GSA under the Federal Property and Administrative Services Act of 1949 (40 U.S.C. 471, et. seq.). Although the statute does not contain a specific provision requiring screening, it would appear that GSA's limited screening requirement for scrap/salvage is consistent with the overall policy of the statute to reutilize federal property to the maximum extent possible. Therefore, it would appear that only the administrator of GSA has the authority to eliminate the limited screening requirement. If GSA either determines that it does not have sufficient authority, or declines to eliminate the limited screening requirement, a change to the statute will be necessary.

*Tracking Threshold  
(Recommendation 12-2)*

**Remove tracking and monitoring requirements for low value Government property. Further, contractors shall be responsible for replacement value of such property that is lost, damaged, or destroyed through other than normal wear and tear.**

The need for significant changes to the Government's system for managing property in the possession or control of contractors has been affirmed by the formation of the FAR Part 45 Rewrite Team. Currently, a contractor's official Government property records must identify all Government property and provide a complete, current, auditable record of **ALL** transactions, regardless of dollar value. For example, the property control record for a \$25 item of Special Tooling is maintained in the same manner as that of a \$25,000 item of Special Tooling. The contractor is also required to investigate, and report all items lost, damaged, or destroyed, regardless of value.

The data illustrated in the following chart was gathered from 13 separate Aerospace Industries Association (AIA) companies and suggests that the cost to industry of managing Government property is twice that of managing its own property. The PAT did not validate the AIA data; however, the Coopers and Lybrand/TASC Project Team also indicate similar significant results within their December 1994 report to

Dr. William Perry, Secretary of Defense, entitled, The DoD Regulatory Cost Premium: A Quantitative Assessment.

### Property Management Comparison

	Government	Industry
Property Line Items	1,531,927	1,650,760
Acquisition Cost	\$12.5B	\$18.5B
Contractor Cost of Management	\$54.2M	\$20.6M
Contractor Work Years	862	327
Items under \$1,500	802,000 (52%)	-0-*
Value of Items under \$1,500	\$1.5B (12%)	-0-*

\*Industry owned property excludes all items valued at less than \$1500.

Although the above data is from a small group of contractors, an extrapolation of this information suggests that the Government property items valued at less than \$1500 represent about 52 percent of the total.

Elimination of stringent tracking and monitoring requirements on approximately 52 percent of the current Government inventory, in the hands of defense contractors, should result in a significant savings to industry. Savings will be subsequently passed to the Government in the form of lower contractor overhead costs due to more efficient operations.

### *Accountability*

With the exception of facilities contracts, reconciliation for accountability of low value items should be accomplished after the contract is physically complete or terminated. Reconciliation of facilities contracts should be at regular intervals established between the monitoring authority and the cognizant contractor, but not less than once every five years, after physical completion, or upon termination. Record creation and retention requirements would remain unaltered other than deletion of the requirement to identify the location of low value items during contract performance.



### ***Replacement liability***

The PAT recommendation to hold the contractor responsible for property lost, damaged, or destroyed through other than normal wear and tear, raised several concerns. Outlined below is a summary of some of these concerns and the PAT's respective opinion.

- Relaxing the requirement for accountability of low dollar value Government property has resulted in comments concerning the potential for contractor abuse; i.e., contractor continuous replacement of lost property at Government expense. Assigning replacement liability to the contractor will incentivize effective management and alleviate this concern.
- Industry presentations indicate that it is cheaper to replace low value items than to manage them. Therefore, implementation of this recommendation should result in significant savings. However, the full risk for achieving these savings is assumed by the Government if replacement liability continues as is for items that are no longer individually monitored.
- If the contractor is not monitoring low value items, Government property administrators will be approving Government property systems without visibility on 50 percent of the items. Therefore, we must remove these items as an evaluation factor for approving systems and place the liability with the contractor. If the Government continues to assume this liability, the only alternative is to investigate the losses, or require physical inventories on a periodic basis. Investigating losses will be impractical since most losses will be identified only at contract completion, and imposing physical inventory requirements defeat the purpose of this recommendation.
- The potential amount of loss can only be estimated by determining the costs incurred by industry for replacing its own low value items that were lost, damaged, or destroyed through other than normal wear and tear. This data is not available because industry does not monitor this category of property. If the Government eliminates the requirement to track this property, it is then the contractor's responsibility to manage these

items in the same cost effective manner as they manage their own low dollar value items.

- The Government would be accepting more risk without a clear indication that it is in the Government's best interest. It would be more prudent to meet in the middle with industry. If a contractor does well managing Government property, they should have little problem with assuming the risk of loss. If a contractor fails to manage Government property, the company absorbs the cost. This places the cost of replacement with those contractors that fail to perform.
- Replacement, or repair cost for low value items lost, damaged, or destroyed through other than normal wear and tear should not be allowed on fixed price, or cost reimbursement contracts. Currently, the FAR "Limited Risk of Loss" clause, as applicable to fixed price negotiated, or cost reimbursement contracts, limits a contractor's cost risk to items lost, damaged, or destroyed resulting from willful misconduct or lack of good faith on the part of the contractor's managerial personnel. The PAT's recommendation to eliminate tracking of low value items should be offset with a change in responsibility for risk of loss. Therefore, the risk of loss provision should be changed to hold the contractor responsible for loss, damage, or destruction of low value property for any reason other than normal wear and tear. If the item is lost, damaged, or destroyed through other than normal contract performance, the decision of replacement liability is clear, investigations will be less burdensome, and the settlement expedited. As a result, fewer manhours will be necessary, hence potential management system savings.

The PAT's position is that the contractor should replace, or repair low value Government property, which is lost, damaged, or destroyed through other than normal wear and tear. If an item is lost, or destroyed and not replaced, contract price would be adjusted in an amount equal to the value of the item. Said value would be established by the cognizant administrative contracting officer (ACO) and contractor. If an item is damaged, the contractor would have to repair it, or adjust the contract price in an amount equal to the repair cost. If the Government has no current, or probable need (as

determined by the contracting officer) for low value items lost, damaged, or destroyed, and not replaced, or repaired; the contract price will be adjusted in an amount equal to the scrap value of such item(s). Investigations during contract performance of low value items lost, damaged, or destroyed should not be required, nor should these items be considered as a factor for Government property system approvals.

#### *Allowability of insurance*

Allowability of insurance expenses related to replacement costs of items lost, damaged, or destroyed through other than normal wear and tear should remain as is. Currently, FAR 31.205-19(a)(2)(iv) allows cost of insurance for the risk of loss of, or damage to Government property "only to the extent that the contractor is liable for such loss or damage and such insurance does not cover loss or damage that results from willful misconduct or lack of good faith on the part of the contractor's directors or officers or other equivalent representatives." FAR 52.245, as it relates to negotiated fixed price, cost reimbursement, and facilities contracts, disallows costs for insuring loss of, or damage to Government property unless insurance is specifically called for under the contract provisions (OFPP, 1994). Therefore, unless expressly stated in the contract, insurance costs for Government losses are only allowable under fixed price contracts which are not negotiated.

Research suggests that industry treats loss of low value property as an operating expense and the risk of loss is minimal. Therefore, since a contractor's liability will exist only for loss or damage through other than normal wear and tear, which is considered a low risk, and because the Government is reducing requirements that were originally meant to reduce risk, the PAT determined that this recommendation should not effect the current provisions for insurance allowances.

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## Comparison of Effects

### Benefits

#### *Scrap Disposition Authority*

- Prevent unnecessary reviews by multiple activities that produce little benefit to the Government. This results in more efficient use of Government personnel, quality services, and administrative cost savings.
- Improve contract closeouts, particularly in the contract termination arena, where funds are being held until screening is completed.
- Save the contractors storage cost during current screening periods for items that have little or no value and are in scrap condition. Cost savings will be realized in lower overhead costs.

### Disadvantage

#### *Scrap Disposition Authority*

- Unless determined prior to contract award, agencies that may be interested in scrap commercial property would not be notified. However, the extremely low level of interest, as illustrated in the sample data, does not warrant the investment necessary to maintain the current process.
- Implementation will require a change or deviation for DoD from the FPMR, 41 C.F.R. 101.

### Benefits

#### *Tracking Threshold*

- Unnecessary demands on Government and industry personnel will be reduced allowing better quality

service, fewer work year requirements, and property reviews focused on high dollar value items.

- Contractor Property Management System cost will be reduced, and will result in lower overhead costs.
- Establish risk management rather than risk avoidance environment.

## **Disadvantages**

### *Tracking Threshold*

- Lose trackability, but not accountability, of low cost Government property items in the possession or control of contractors.
- Contractor may project replacement cost in future contracts; however, this should be less than current cost to manage that property.

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## **Risk Management**

### *Scrap Disposition Authority*

Lack of interest in scrap property shows there is minimal risk associated with the recommended change.

### *Tracking Threshold*

The risk is considered low to non-existent. Controls for loss or damage of Government property should lie within the contractor's operating, inventory, and quality systems. The current requirements serve to inform the contracting officer of escalating contract cost, and the property administrator of a system that may be going astray. However, these concerns will be eliminated once the contractor is required to replace items lost, damaged or destroyed. Relief in tracking low value items does not relieve accountability requirements. It also removes the significance of low value losses as they relate to approving a contractor's Government Property System.

## Implementation Plan

The implementation of the recommendations for Scrap Disposition Authority and Tracking Threshold are the responsibility of the Director of Defense Procurement and the FAR Part 45 Rewrite Team. The following tasks need to be accomplished:

Recommendation Number	Task	OPR	Date after Approval
12-1	A. Class Deviation from FAR 45.608 and DFARS 245.608.	DDP/FAR Part 45 Rewrite Team	1st Qtr
	B. Revisions to FAR 45.608 and DFARS 245.608.	DDP/FAR Part 45 Rewrite Team	1st Qtr
	C. Legislative changes to Federal Property Act of 1949 (40 USC 471) and GSA Code of Federal Regulations Title 41 Part 101-43, "Utilization of Personal Property (1993)."	DDP/FAR Part 45 Rewrite Team	1st Qtr
	D. Collect data to measure cost savings/avoidances related to reduced storage requirements, reduction of plant clearance cases, and change in plant clearance case cycle time	DCMC	2nd Qtr
12-2	A. Class Deviation from FAR 45.101, 45.504, 45-505, 45.505-1, and 45.508; FAR 52.245-2, 52.245-5, 52.245-7, 52.245-8 and 52.245-11.	DDP/FAR Part 45 Rewrite Team	1st Qtr
	B. Revisions to FAR 45.101, 45.504, 45.505, 45.505-1, and FAR 45.508; FAR 52.245-2, 52.245-5, 52.245-7, 52.245-8 and 52.245-11.	DDP/FAR Part 45 Rewrite Team	1st Qtr
	C. Collect data to assist FAR Part 45 Rewrite Team to identify contractors that agree to modify existing contracts to incorporate the FAR deviation, changes in DCMC costs caused by change in tracking requirements, changes in cost associated with low value property losses, and dollar value of contract changes driven by this change.	DCMC	1st Qtr

The FAR Part 45 Rewrite Team is staffed with the appropriate personnel (i.e., legal counsel, PLCOs, property administrators, etc.) to accomplish the required tasks. Therefore, research

and identification of the specific revisions to FAR, DFARS, and statutes for both recommendations are deferred to the Rewrite Team.

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## **Milestones**

Milestones for the Scrap Disposition Authority and Tracking Threshold recommendations shall be established by the FAR Part 45 Rewrite Team.

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## **Metrics**

### **Scrap Disposition Authority**

During the deviation period, DCMC will provide to the FAR Part 45 Rewrite Team, cost savings/cost avoidance data in the categories of storage, scrap plant clearance cases, and reduction in plant clearance time.

### **Tracking Threshold**

To measure the impact of this recommendation, the following data should be collected by DCMC and reported to the FAR Part 45 Rewrite Team prior to completion of FAR revisions:

- Number of contractors that agree to incorporating the FAR deviation into contracts.
- To the extent possible (after establishing a current cost base), report all DCMC property management costs, or savings related to less stringent tracking of low value property.
- Changes in low value property losses.
- Equitable adjustments due to contractor change proposals.

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CHAPTER THIRTEEN

# OVERSIGHT OF OVERHEAD RATES

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## **Introduction**

Overhead rates are the mechanism for assigning indirect costs to Government contracts. It is a much discussed topic which has a significant impact on the cost of products and services acquired by the Department of Defense (DoD). Many customers' concerns are related to overhead rates, including the time required to evaluate cost proposals, the difficulty in reaching agreements on price, the costs billed to programs, the final costs on price redeterminable and cost reimbursable contracts, and the delays in the contract closeout process. The Process Action Team (PAT) recommendations will improve Government oversight of the overhead process and establish a controlled, risk acceptance environment to facilitate the contract management process. The result will be redesigned processes that are more effective, efficient, and less costly.

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## **Objective**

The objective is to eliminate duplication and unnecessary procedures, as well as decentralize decision making authority and eliminate unnecessary layers of review/approval.

The focus of this objective is to identify opportunities for reengineering of the acquisition processes affected by the oversight and audit practices associated with:

- Forward Pricing and Provisional Billing Rates
- Estimating Systems
- Should-Cost Reviews
- Final Overhead Settlement

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## Recommendations

### Forward Pricing Rate Agreement

#### *Tailored agreements*

Establish tailored Forward Pricing Rate Agreement (FPRA's) for smaller contracts when it is impossible to reach agreement for all business at a location (Recommendation 13-1).

#### *Continuous updates*

When an element of an FPRA is no longer valid, institute a methodology to renegotiate elements of the FPRA rather than renegotiating the total agreement (Recommendation 13-2).

### Estimating System

#### *Establish a progress payment reduction for inadequate estimating system*

Change Department of Defense Federal Acquisition Regulation Supplement (DFARS) to require the administrative contracting officer (ACO) to make a reduction in progress payments of ten percent when a contractor's estimating system is judged to be inadequate and the ACO determines that insufficient progress is being made to bring the system into compliance (Recommendation 13-3).

### Should-Cost Analysis:

#### *Use risk assessment*

Perform a should-cost analysis (full or partial) only when application of objective, empirical data indicates a review is necessary (Recommendation 13-4).

## **Final Overhead Settlement**

### *Reduce cycle time*

Recommend DoD take the following actions to reduce average cycle time required for final overhead settlement (Recommendation 13-5):

#### *Audit low dollar/low risk contractors on a sampling basis*

- Perform audits of low dollar/low risk contractors on a sampling basis.

#### *Require timely overhead rate proposals*

- Require contractors to comply with contract clauses requiring submission of a final overhead rate proposal and apply sanctions for late submissions.

#### *Extend due date from 90 days to six months*

- Extend the time limit for final overhead rate submission from 90 days to six months.

#### *Improve and expand contract clauses*

- Improve and expand contract clauses requiring final incurred cost proposals.

#### *Establish goals for timely completion of audits*

- Establish goals for timely completion of final incurred cost audits and institute incentives to encourage compliance.

#### *Establish a goal for completion of negotiations and final settlement procedures*

- Establish a goal to complete any required negotiations and final settlement procedures not later than six months after issuance of the audit report.

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## Discussion

### Forward Pricing Rate Agreement

The contractor receives reimbursement for its incurred cost in the basic categories of labor, material, and overhead. The amount of overhead, which reflects cost that cannot be identified to a specific contract, is calculated as a rate, normally a percentage relationship to direct labor. It is an annual or fiscal year rate that is determined following review and analysis. When indirect rates, in the form of a forward pricing rate agreement (FPRA), are needed, a forward pricing rate proposal (FPRP) is requested. The proposal is evaluated by the Defense Contract Audit Agency (DCAA) and the contract administration office (CAO) with input from the procuring organizations.

### *Tailored agreements (Recommendation 13-1)*

When agreement on a FPRA is impossible, the CAO furnishes the contracting officer with recommended rates (FPRR) and documentation to assist the negotiators in achieving the recommended rates. This results in extended negotiations for procurement organizations with a plethora of small contracts. In addition, a variety of rates and differing overhead dollars are applied to the negotiated contracts. If the proposed rates could be easily achieved, why didn't the CAO negotiate the rate?

A negotiation of a FPRA does not occur when a major contract projection cannot be quantified. At Lockheed (General Dynamics), negotiation of a FPRA was delayed for two years because of continuing changes in the F-16 production requirements. The changes in DoD funding, reduced aircraft requirements, and projections of Foreign Military Sales made it impossible to reach agreement. Procurement offices with many small contracts were forced to utilize recommended rates during this period.

The contracting officer responsible for indirect cost rates at a location can use the CAO knowledge to determine bands of cost risk for contract proposals. Using this data, a tailored FPRA can be negotiated that will allow the Government and the contractor to expedite the negotiation process with rates that reflect equity for all parties.

***Continuous update  
(Recommendation 13-2)***

When a FPRA is negotiated, a written agreement is prepared that lists specific terms and conditions. Areas covered include expiration, application, and data requirements for systematic monitoring to assure the validity of the rates. The agreement will provide for cancellation and require the contractor to submit to the ACO and the cognizant auditor any significant change in cost or pricing data (OFPP, 1994). Using the continuous update concept, the agreement will be expanded to list actions that occur when changes are known and a rate impact is projected. Specific data required by the Government will be listed to allow the ACO to determine the level of risk associated with each submitted change. Parameters are then established which will determine if the FPRA can remain in effect while a rate revision is negotiated. This will reduce the need for revised proposals, extensive audit and technical evaluations, and protracted negotiations.

Teaming is an essential element in achieving success on these recommendations. The CAO, DCAA, procuring organization, and contractor must work together to:

- Prepare a proposal in adequate detail to allow a determination of cost drivers.
- Evaluate proposals in sufficient detail to determine the impact of major cost drivers on projected rates.
- Negotiate rates in total or, where that is impossible, tailored rates.
- Extend the existing FPRA with revised rates.

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## Comparison of Effects

### Benefits

#### *Forward Pricing Rate Agreement*

Low dollar contracts will be negotiated using consistent indirect rates on an expedited basis.

Negotiations will continue without interruption.

The FPRA will remain in effect as modifications are made to the negotiation memorandum reflecting individual rate changes.

### Disadvantage

#### *Forward Pricing Rate Agreement*

The negotiated rates may reflect greater risk for small dollar contracts on the part of the Government.

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## Risk Management

### Forward Pricing Rate Agreement

Contract negotiations will continue to be delayed with overhead allocated to small dollar contracts at varying rates if tailored agreements and continuous updates do not become common practice.

The CAO, through teaming agreements with DCAA, procuring organizations, and contractors, can establish parameters for cost risk that are acceptable to all parties. With advance agreements in place, risk to any one party will be mitigated by spreading risk over all parties.

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## **Discussion**

### **Estimating System**

A contractor's estimating system is made up of those policies, procedures, and practices which are used to prepare cost estimates, including overhead rate forecasts. The rates are incorporated into individual proposals submitted in connection with pricing of Government contracts. To the extent that a contractor maintains an adequate estimating system, which consistently produces accurate and reliable results, increased reliance can be placed on the contractors' proposals and the level of Government review and analysis can be reduced. An effective estimating system helps to expedite the negotiation process of fair and reasonable contract prices.

DFARS 215.811 requires all defense contractors to have an adequate estimating system. In the case of large defense contractors, DFARS also requires a formal program of system disclosure, maintenance, and Government review (DoD, 1994). Estimating systems which are determined to be inadequate are subject to formal disapproval by the ACO. If corrective action is not taken, the ACO can take other actions such as elevating the issue to higher management, reducing or suspending progress payments, or recommending that contracts not be awarded.

In recent years, DoD has been faulted by GAO and the DoDIG for not being sufficiently aggressive in pursuing corrective actions on contractor's estimating deficiencies. Most recently, in July 1994, a GAO report entitled, Contract Pricing. DoD Management of Contractors with High Risk Cost Estimating Systems, GAO No. B-256865 (OSD Case 9679), recommended that DoD,

"... implement procedures to ensure significant cost-estimating system deficiencies are corrected more expeditiously. Such procedures should include the implementation of routine follow-up by DLA district offices and headquarters to determine why long-standing deficiencies have not been corrected, and the establishment of specific time frames as to when contracting officers are required to seek guidance about using more severe remedies that are already available and when higher level management must



become involved in finding solutions to such significant deficiencies. "

The report highlighted situations where DoD was continuing to do business with contractors whose estimating systems had been found to have significant deficiencies. A significant estimating system deficiency is defined by DFARS 215.811. It is a shortcoming that is likely to consistently result in proposal estimates for total cost or a major cost element that does not provide an acceptable basis for negotiating fair and reasonable prices.

*Establish a progress payment  
reduction for inadequate  
estimating system  
(Recommendation 13-3)*

DFARS emphasizes the value of adequate estimating systems by recommending reduction in progress payments as one of the tools available to the ACO to encourage contractors to correct deficient systems. As demonstrated by the GAO, ACOs are not, in most cases, utilizing this tool. It is the PAT's perception that this condition exists because of the difficulty in determining the dollar value impact to the Government of contractors having deficient estimating systems. Where a contractor's estimating system has been found to be inadequate and the contractor has not made adequate progress toward correcting the system, the PAT recommends changing the DFARS to require a ten percent reduction in progress payments. This change will ensure sanctions are applied where a contractor fails to have and maintain an adequate estimating system. Further, by establishing a nominal reduction, the ACO is relieved of the difficult task of determining an appropriate amount to withhold. The ACOs determination of withhold amounts will not be subject to "second guessing" and will preclude time consuming negotiations. The PAT feels this recommendation provides corrective action to GAO criticism of DoD efforts to correct known estimating system deficiencies and provides an incentive for contractors to maintain adequate estimating systems. The ten percent withhold will apply to contracts entered into after the DFARS language has been changed. It is noted that the penalty will be applicable **only** to large contractors who meet the criteria established by DFARS 252.215-7002(c).

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## Comparison of Effects

### Benefits

#### *Estimating System*

Simplifies the process of reducing progress payments when the ACO determines a contractor has an inadequate estimating system.

Reduces the number of contractors with inadequate estimating systems.

Reduces length of time estimating system remains in an inadequate status.

Reduces time expended by ACOs to bring contractors into compliance with estimating system requirements; thereby, reducing direct labor cost to the Government.

Reduces time required to accomplish cost analysis and price negotiation.

### Disadvantage

#### *Estimating System*

Contractors may not be receptive to new DFARS language which results in a predetermined reduction in progress payments.

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## Risk Management

#### *Estimating System*

The risk to the Government resulting from linking a specified reduction in progress payments to an acceptable estimating system, is negligible.

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## Discussion

### Should-Cost Analysis

Should-cost analysis (FAR Part 15.810) is a valuable tool for evaluating contractor performance (OFPP, 1994). It seeks to identify potential process improvements and less than economical or inefficient contractor practices. The benefit to the Government is a more efficient producer. Benefit to the contractor is a more competitive position.

Contractor overhead rates are an attractive target for should-cost analysis. Procuring activities (customers) want Defense Contract Management Command (DCMC) assurances/evidence that contractors are effectively managing their overhead rates, especially as business volume declines. The current process requires improvements so that customers can access relevant and timely information, apply objective, empirical risk assessment criteria and receive satisfactory answers to their concerns.

An analysis of the current process includes process mapping, discussions with process owners and customers and a review of the baseline regulations. Recommendations are shaped to provide an exact fit between the customer and the process.

### *Use risk assessment (Recommendation 13-4)*

The criteria in the Federal Acquisition Regulation (FAR) Part 15.810 lacks focus and objectivity. A tailored review emphasizing overhead rates must zero-in on the cost drivers for analysis (OFPP, 1994). This permits efficient use of time and resources to analyze identified concerns. A thorough review depends on contractor data and interpretations. A risk assessment is a first step to alert a contractor that a cost driver has a new trend line which is causing the overhead rate to rise. A new rate review is only indicated if there exists a high level of risk associated with the change. Too often customers want a review when a telephone call would do just as well. In early 1994, the Commander of DCMC directed that risk assessments be used to identify locations with the greatest potential for increasing overhead costs (Vincent, 1994). Based on this guidance and a list of contractors nominated by National Aeronautics and Space Administration (NASA) and the services, DCMC field offices proceeded to evaluate the risk of higher costs. The procurement community's concerns stemmed from three areas: 1) concern

that overhead rates were going up as business volume declines; 2) budget pressure resulting in customer demands for lower costs; and 3) a lack of knowledge of the benefits of should-cost analysis (Lech, 1994). Field office evaluations indicated that overhead costs were not at risk at most locations. GAO took issue with this evaluation in August 1994 (GAO, 1994). The GAO comments reveal a fixation on rules such as "do more reviews" and ignores the evaluations that indicated low risk in this area. GAO states, "The major customers of these contractors concurred with DCMC's low risk assessment." If DCMC overhead experts and contractor customers agree, then performing should-cost analysis serves no purpose other than checking a box.

An example of lack of knowledge of overhead rates involved a Navy concern with pension costs at McDonnell Douglas in St. Louis, Missouri. When informed that pensions are overfunded and costs have been zero since 1989, the Navy said they still wanted a review.

Texas Instruments (TI) has been selected for an overhead should-cost review. It has a 90 percent firm fixed price contract base. The division lost a large amount of business volume resulting in a large increase in overhead rates. However, since the base was priced using lower rates and the prices are fixed, the contractor must absorb the increases. The higher rates cannot be passed on. The Army has a relatively small cost contract which is absorbing higher rates and it insisted on a review even though the cause of the rate increase is known and predictable. This illustrates a failure to recognize that business volume drives rates just as overhead expenses do and ignores the outstanding quality organization in place at TI, which is a Baldrige award winner.

Rate changes are frequently explicable by a known, quantifiable cost driver. Customers sometimes use the prospect of a review as a club when they should recognize that a rate increase may be a normal consequence of day-to-day business.

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## **Comparison of Effects**

### **Benefits**

#### *Should-Cost Analysis*

The use of risk assessment as a means to decide when and where an overhead should-cost analysis is to be performed will reduce the number of unnecessary or unwarranted reviews. It will provide to decision makers a clear, objective view of the historical and projected overhead cost trends. It will describe current and planned cost reduction initiatives with the resulting decrease in trend. It will identify the high dollar and high risk cost drivers for review. This will produce better overall results while consuming less Government resources.

### **Disadvantage**

#### *Should-Cost Analysis*

Not using a risk assessment to govern the should-cost process deprives the Government of the knowledge of which locations have high risk of increased overhead costs.

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## **Risk Management**

### **Should-Cost Analysis**

Use of a risk assessment approach will permit efficient use of resources.

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## Discussion

### Final Overhead Settlement

Flexibly-priced contracts, such as cost-reimbursable and fixed price incentive fee, require that contractors' indirect costs or overhead rates be settled prior to establishment of final contract prices. Current Federal Acquisition Regulations (FAR Part 42.705) provide two alternative procedures for settling final indirect cost rates (OFPP, 1994). The first procedure, which applies primarily to large or multidivisional corporations, provides for settlement to be made by the contracting officers. The procedure applicable to smaller companies assigns primary responsibility to the cognizant auditor. Aside from settlement authority, the procedures are very similar. Both require the contractor to submit a certified indirect cost rate proposal within 90 days after the end of its fiscal year, and both require a final audit of the contractor's proposed rates.

Recent internal DoD studies have concluded that contract closeout is one of the contract administration processes most in need of improvement (DCMC, 1993). Contract closeout became a major area of concern within the Department with the passage of Public Law 101-510 which placed a limit on the period of time for which funds appropriated for a contract remain available. Delays in obtaining contractor rate proposals, completing audits, and settling final overhead rates collectively represent a primary cause of delays in closing contracts (AFMC, 1994) (DCMC, 1993). The subject of contract closeout is covered in greater detail in a separate chapter of this report.

### *Reduce cycle time (Recommendation 13-5)*

In his September 14, 1994 memorandum to all major DoD components, the Secretary of Defense promoted reduction of process cycle times as "a powerful weapon ... which generates more efficient processes, greater product quality and improved organizations for less costs" (Perry, 1994). Additionally, Dr. Perry challenged "each Military Department and Defense Agency to establish performance agreements that will reduce cycle times by at least 50 percent by the year 2000" (Perry, 1994). The PAT believes that final overhead settlement is one of those processes which offer unusual opportunities to achieve substantial reductions in cycle time

with the accompanying benefits envisioned by the Secretary. The following paragraphs contain a number of recommendations which, if adopted, could lead to cycle time reduction of approximately 50 percent prior to the year 2000.

Because of the delay to increase DCAA audit staffing commensurate with the large procurement buildup in the early 1980's, DCAA was not able to keep pace with workload in auditing incurred cost, including overheads, on flexibly-priced contracts. As a result, an extremely large backlog of these types of audits developed. The DoD Comptroller and DCAA have agreed to a schedule for reducing the incurred cost backlog to a reasonable level by 1997. DoD has gone on record with the Congress, the GAO, Department of Defense Inspector General (DoDIG), and industry that the backlog will be reduced notwithstanding the planned reductions in DCAA's workforce (DCAA, 1993, October).

DCAA began its fiscal year 1989 with an incurred cost backlog totaling \$163 billion. By the end of fiscal year 1994 the backlog had been reduced to approximately \$126 billion. Current plans call for further reductions which would bring the backlog to less than \$74 billion, or an amount equal to one years' auditable cost, by the end of fiscal year 1997 (DCAA, 1994, December). It should be noted that DCAA's data on incurred cost backlog (as well as other DCAA data discussed in this chapter) include amounts related to DCAA's non-DoD customers. Normally, about ten percent of DCAA's work is performed for other non-DoD Departments or Agencies.

*Audit low dollar/low risk  
contractors on a sampling  
basis*

One initiative currently being considered which could contribute to accomplishment of the backlog reduction goal is DCAA's proposal to begin auditing low dollar (less than \$5 million per year), low risk contractors using sampling concepts. Under DCAA's proposed procedures, contractors which have been audited in the past, and have submitted settlement proposals containing no questioned cost would normally be classified as low risk (DCAA, 1994). A sample of 20 percent of these low risk proposals would be selected for detailed audit, and the remaining 80 percent would be closed subject to application of certain desk review procedures. Audit advice would be provided to the contracting officer, either by formal audit report, in the case of the detailed audit, or by memorandum when desk review procedures are used. All

contractors would be selected for detailed audit at least once in a five year cycle regardless of risk classification. Based on past audit results, DCAA believes this initiative will permit reduced audit oversight on low risk submissions without significantly increasing overall risk to the Government (DCAA, 1994, April). The DoDIG is currently participating with DCAA in a test of the sampling plan (DCAA, 1994, June). The DCAA test audits were scheduled to be completed by December 31, 1994, and the DoDIG's evaluation will start in March 1995.

In responding to a draft of the PAT's report, the DoDIG identified issues which will be addressed during their evaluation. These concerns are "First (the sampling plan) does not comply with the FAR requirement for an audit. Second, it may not comply with the auditing standards. Third, there is concern that these contractors have not been properly audited before and thus our risk is high and not low. Finally, we are concerned that five years is too long a period to allow costs to be charged without audit (DoDIG, 1995)."

With regard to compliance with FAR, it should be noted that the Director, Defense Procurement, has concluded that the sampling initiative is in compliance with FAR (OUSD, 1994). The PAT understands the DoDIG's concerns will be addressed during their evaluation, and that some modifications may result based on empirical evidence from the test and proper evaluation of the risk. Nonetheless, the PAT strongly endorses the concepts and intent of DCAA's initiative to perform audit of low dollar/low risk proposals on a sampling basis. After completion of the test, the PAT recommends, if necessary, that the FAR be revised to incorporate the sampling concept.

*Require timely overhead rate proposals*

DCAA's audit backlog is not the only factor contributing to delays in final overhead settlement. During debate on the 1995 Defense Appropriation Act in September 1994, Senator Carl Levin stated,

"I think that (reduction of the incurred cost backlog) is an important goal and one that DCAA should try to meet. However, I think we should also recognize that DCAA needs some assistance from the contractors and DoD in order to reduce this backlog. DCAA needs the contractors to submit their incurred cost claims in a



timely fashion, and DCAA needs the Department to provide DCAA with appropriate staffing.

There is a contractual requirement that each contractor submit incurred cost claims to the Government 90 days after the contractor's fiscal year ends. I have been advised that approximately 65 percent of contractors take 6 months or longer to submit incurred cost claims to the Government. DCAA cannot start the audit until it has the contractor's claim. Clearly, the timeliness of contractor incurred cost claims must improve in order for DCAA to reduce the incurred backlog to 1 year (Congressional Record, 1994)."

Detailed information provided by DCAA shows that during fiscal years 1992-1994, only about nine percent of contractors submitted their final rate proposals within the 90 day time frame specified by the contract clause. The average proposal was received approximately 16 months after the end of the contractor's fiscal year or 13 months late (DCAA, 1994, December). Although contracts require submission within 90 days (unless the contracting officer agrees to a later date), there is currently no sanction or penalty for late submission. Clearly, contractor delinquencies in proposal submission are contributing to the extended cycle time on overhead settlement. In addition, timely overhead proposals are an important element in contractor's billing systems since prior years' actual experience, including identification and deletion of unallowable costs, is relevant to establishment of subsequent years' provisional billing rates. Also, actual rates serve as a basis for projecting forward pricing rates. Therefore, the PAT recommends that DoD begin enforcement of compliance with the contract clause and apply sanctions for noncompliance.

The PAT proposes the following sanctions to be used beginning with contractor proposals for FY 1996:

1. Contractors who are delinquent on final incurred cost proposals will be considered to have inadequate billing systems. Such inadequacies shall be considered as a negative factor in risk assessments and other performance evaluations associated with reduced Government oversight initiatives.

2. The Government official responsible for determining billing rates under provisions of FAR 42.704 shall pursue adjustments to provisional billing rates, as appropriate, to give recognition to the additional risk and potential harm to the Government associated with late submissions.

*Extend due date from 90 days to six months*

The PAT recognizes that the 90 day time frame currently provided for submission could be less than adequate for some contractors to complete their year-end closing and prepare an adequate proposal, free of unallowable costs. This could partially explain why only nine percent of the contractors are in compliance. However, it is noted that one-third of the contractors have managed to submit their proposals within six months after the close of their fiscal years. The PAT therefore recommends that prior to introduction of sanctions, the time limit for proposal submission be extended from 90 days to six months. Authorization for contracting officers to extend this due date should be limited to situations involving extreme hardship.

Total compliance with the recommended six months due date would reduce the cycle time for overhead settlement by approximately ten months. Although, the full benefit of this reduction will not be realized until DCAA achieves its 1997 backlog reduction goal, improvement in timeliness of contractor submissions will facilitate the accomplishment of this goal, as well as cycle time reductions in future years.

*Improve and expand contract clauses*

Contract Clauses at FAR 52.216-7 and 52.216-13 provide that under cost reimbursable type contracts, contractors shall submit to the contracting officer, and in certain cases to the cognizant audit agency, "...proposed final indirect cost rates for that period and supporting cost data specifying the contract and/or subcontract to which the rates apply. The proposed rates shall be based on the Contractor's actual cost experience for that period" (OFPP, 1994). This limited and relatively ambiguous language does not necessarily promote submission of contractor proposals which provide sufficient data necessary to support proposed rates and facilitate an efficient and expeditious audit. Nor do the contract clauses give recognition to the auditor's need for data summarizing

claimed direct cost and allocation bases which are covered in the final audit, in addition to proposed overhead rates.

DCAA has published a Pamphlet entitled Guidance For New Contractors (DCAAP 7641.90) which is intended to assist new contractors in understanding audit requirements. The chapter on incurred cost proposals includes an example of what DCAA considers to be an "adequate submission (which) should reduce the time required to do an audit because numerous preliminary steps can be performed before the auditor(s) arrive at (the contractor's) location" (DCAA, 1993, November). In addition, in the last few years, DCAA has conducted numerous seminars and workshops throughout the country with the objectives of improving communications and working with contractors in furthering mutual goals of total cycle time reduction, as well as limiting the amount of time the auditors have to spend at the contractors' plants. The quality of the contractor's submission is a key factor in efforts to achieve improvements in this area. Many contractors have cooperated fully and have significantly improved the timeliness and quality of their submissions, while others have resisted and continue to provide only the minimum data considered necessary to comply with the contract clause. In these later cases, it is usually necessary for the auditor to spend additional time at the audit site to extract from the contractor's records additional data needed to complete the audit.

Contractors and DCAA should be encouraged to continue their efforts to achieve improvements as described above. However, the PAT also believes additional progress could be made by improving the contract clause to provide greater specificity regarding the minimum data which is needed with the contractor's proposal in order to proceed with the audit in an efficient manner. Specification of minimum requirements would not limit the contracting officer's right to require, on a case by case basis, submission of additional data considered necessary to support the contractor's proposal. The PAT recommends the contract clauses at FAR 52.216-7 and 52.216-13 be modified to require submission of the following data items:

- a. Schedule of Proposed Rates for each Expense Pool.
- b. Statement of Pool and Base Costs for each Proposed Indirect Expense Rate listing the proposed amount by account with unallowable costs specifically identified and excluded from the proposed pool.

- c. Schedule of Allowable Direct Costs by Flexibly-priced Contract (or reference to applicable accounting records if data is too voluminous).
- d. Schedule of Allocation Base Amounts by Flexibly-priced Contract (if not otherwise covered by item c).
- e. Schedule of Hours and Costs Proposed on Time & Material (T&M)/Labor Hour Contracts (if applicable).
- f. Schedule of Government Contract Participation in the Indirect Expense Pools.
- g. Schedule of Facilities Capital Cost of Money Factors Computation (if applicable).
- h. Schedule or Computation of Allocable Independent Research and Development/Bid and Proposal (IR&D/B&P) Costs (if applicable).

*Establish goals for timely completion of audits*

As an additional step in significantly reducing the cycle time for final overhead audits, DCAA needs to significantly shorten the time frame from receipt of an adequate submission to issuance of their final audit report. For audit reports issued during FY 1989, an average period of approximately 23 months lapsed from submission receipt to issuance of the audit report. This was after the auditors had already waited an average of almost 21 months after close of the contractor's fiscal year to receive an adequate proposal. This resulted in total average cycle time approaching four years for completion of the incurred cost audit. As this is an average, some locations required much longer. Also, these numbers do not include the time which may have been required for other actions needed for final settlement such as rate negotiations, appeals of audit determinations, or higher level appeals under contract dispute procedures. By FY 1994, average total cycle time had been reduced to less than 38 months, approximately 17 months for the submission and 21 months for the audit. As part of its initiative to reduce the incurred cost backlog dollars to a one year equivalency by the end of FY 1997, DCAA expects to be able to reduce the average cycle time for the audit to 18 months or less (DCAA, 1994, December).

The PAT believes that if the contractors are expected to submit improved incurred cost proposals within a specified time limit (recommended six months), then the Government

should also be expected to make additional reductions in the cycle time required to complete the audit. The PAT proposes that beginning with the contractor's submission for FY 1998, the Government agree to establish a goal to complete the audit within one year from date of receipt of an adequate submission (as determined by the administrative contracting officer) at larger contractor sites where DCAA is in residence. At locations audited on a mobile basis, the goal would be to complete all audits not later than two years after receipt of an adequate submission. The time frame provided for completion of the audit would not begin until receipt of adequate proposals from all segments of the contractors organization, including the corporate office and off-site feeder plants, which are necessary to account for all claimed costs. The reason for the longer two year period for mobile audits is to provide the opportunity for increased efficiency by performing a multiyear audit every two years instead of an annual audit. Some of the mobile sites, such as the corporate offices and off-site divisions which support larger contractor segments, may continue to require annual audits. However, the majority of locations can be audited on a biannual basis at a much lower cost. With these established time frames, the average cycle time for the audit phase would be reduced to less than one year at the larger contractors and less than one and one half years at smaller companies. To provide assurance that adequate incentives are in place to promote Government adherence to the established time frames, we recommend that failure to complete the audit on time result in the following:

1. The contractor will be allowed to adjust its provisional billing rates to those in the certified proposal until such time as the audit is completed. There will be no loss to the contractor under this approach, nor will there be any remaining concern about expiring funds, since the final settlement will be at the claimed and billed rates or less.
2. Audits not completed within the established time frames will be tracked and the Director, DCAA, will be required to take action to prioritize completion of the audits.

To the extent that the goals established can be met, the overall net effect of these recommendations should be to reduce the cycle time through completion of the audit to the following:

Maximum Cycle Time in months		
Large Contractors	Audits Completed in FY-94	Contractor Proposals FY-98 and Beyond
Contractor Submission	89	6
Audit	96	12
Total		18 months
Mobile Contractors		
Contractor Submission	126	6
Audit	100	24
Total		30

Average Cycle Time in months		
Large Contractors	Audits Completed in FY-94	Contractor Proposals FY-98 and Beyond
Contractor Submission	15	Less than 6
Audit	24	Less than 12
Total	39	Less than 18
Mobile Contractors		
Contractor Submission	17	Less than 6
Audit	21	Approx 18
Total	38	Approx 24

Current DoD procedures provide for allowing contractors as long as three months to respond to audit findings in draft audit reports, and auditors are allowed an additional two months to seek contractor concurrence and issue final audit reports (DCAA, 1994, January). In order to achieve the cycle time reductions we are recommending, it is clear that the time periods provided for these tasks must also be reduced. The PAT recommends that the time frames allowed for contractor response and audit report finalization be reduced to a

maximum of one month each. Current DCAA policy requires that significant audit findings be discussed with the contractor as soon as possible to expedite the resolution process (DCAA, 1994, January). Our experience has shown that when this is done, and when the contractor is cooperative and responsive, the time required to complete the actions between completion of the draft report and issuance of the final report is greatly reduced. The PAT believes that allowances of one month each for contractor comment and report finalization are realistic and achievable.

*Establish a goal for completion of negotiations and final settlements procedures*

In the majority of cases, final overhead settlement has been accomplished, usually through audit determination procedures, upon issuance of the final audit report. In some cases, primarily those involving rates established by administrative contracting officers (ACOs), final settlement requires the completion of a negotiation and resolution process. Based on data provided by DCMC, it appears that this part of the process is requiring more than one and a half years, on average, to complete (DCMC interview, 1995). Thus, this final step is contributing to the lengthy cycle time required to settle rates at certain contractors. In these circumstances, the PAT recommends that as part of this overall improvement plan, DCMC should establish a goal of completing negotiations and final settlement of rates within a period of six months after receipt of the audit report. The PAT also recommends that actual time required be monitored and assessed on a continuing basis.

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## **Comparison of Effects**

### **Benefits**

#### *Final Overhead Settlement*

##### *Reduce cycle time*

Facilitates routine closing of contracts.

Greatly minimizes potential for expiration of appropriated contract funds.

Generates more efficient Government and contractor processes through elimination of lengthy delays in accomplishing actions required by contract.

Prevents future buildup of any large incurred cost audit backlog as occurred during the 1980's.

Reduces audit oversight on low risk submissions without significantly increasing overall risk to the Government.

Reduces ambiguity concerning proposal content, thus improving efficiency of the audit process.

## **Disadvantages**

### *Final Overhead Settlement*

#### *Reduce cycle time*

Reduces flexibility in planning and scheduling audits.

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## **Risk Management**

### **Final Overhead Settlement**

#### *Reduce cycle time*

Risk assessment and risk management are an inherent part of the audit process, and the auditor is expected to exercise professional judgement, considering audit risk and vulnerability, in determining the scope of the audit. Audit risk can be managed through evaluation, and where applicable, reliance upon the contractor's system of internal controls to adjust the level of audit testing.

In formulating its plan to perform audits of low dollar/low risk contractors on a sampling basis, DCAA has demonstrated flexibility in managing risk by proposing to accept limited increased risk in exchange for reduced audit oversight and less cost overall. The program has built in controls to assure that risk is managed by including provisions such as:



- If unallowable cost is claimed at a sampled contractor, all open years at that contractor will be audited.
- If irregular conduct is identified at a low risk contractor, prior years will be reopened.
- All contractors will be audited at least every five years.
- Significant changes in dollar volume and other audit leads will result in a low risk contractor being reclassified as high risk.

Through continuing assessment of the results of the sampled audits, the sampling plan can be modified by increasing or decreasing the dollar limits or the sample size, as necessary, to maintain the proper balance between benefits and risk.

Management of the total audit mission to incorporate the recommended goals for completion of incurred cost audits will require application of risk management concepts on a broader level. DCAA must plan its work in such a fashion as to limit the possibility that the time period for a high risk audit will lapse prior to completion of the audit. Also, they must continuously assess the effectiveness of audit accomplishments to assure that the Government is not exposed to unacceptable risk.

## Implementation Plan

Recommendation Number	Task	OPR	Date after approval
	<b>FORWARD PRICING RATE AGREEMENTS</b>		
13-1 - 13-2	A. Present tailored agreements and continuous updates as viable options to be actively pursued	DCMC	1st Qtr
	B. Develop specific location agreements through teaming (CAO, DCAA, procuring activity, and contractor)	DCMC	2nd Qtr
	C. Perform cost monitoring/overhead analysis to determine major cost drivers and develop cost risk parameters	DCMC	3rd Qtr
	D. Incorporate agreements and updates into FPRA/FPRR tracking system	DCMC	4th Qtr
	E. Review for cost effectiveness and further application	DCMC	6th Qtr
	<b>ESTIMATING SYSTEMS</b>		
13-3	A. Revise DFARS 215.811-70(f)(6) and 252.215-7002(e)	DDP	1st Qtr
	<b>SHOULD-COST ANALYSIS</b>		
13-4	A. Revise DFARS 215.809	DDP	1st Qtr
	B. Revise DFARS 215.810	DDP	1st Qtr
	<b>FINAL OVERHEAD SETTLEMENT</b>		
13-5	A. Finalize and implement low dollar/risk sampling plan	DCAA	1st Qtr
	B. Establish performance goals and tracking system for negotiation and final resolution processes	DCMC	2nd Qtr
	C. Develop and issue necessary revisions to FAR 42.705	DDP	3rd Qtr
	D. Develop and issue necessary revisions to FAR 52.216-7 and 13	DDP	3rd Qtr
	E. Formulate and implement procedures to assure compliance with contract clauses requiring timely incurred cost submissions	DCMC	3rd Qtr
	F. Develop and implement audit plan to complete incurred cost audits prior to established time limits	DCAA	6th Qtr

## Milestones

The milestone chart depicts the number of quarters following approval of the PAT report for completion of the implementing activities.

Task Name	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	Q10	Q11	Q12
<b>FORWARD PRICING RATE AGREEMENTS</b> (Recommendation 13-1 - 13-2)												
Formalize teaming arrangements and continuous update												
Implement teaming requirement												
Complete cost risk methodology (DPROs)												
Implement tracking database												
Review actions for effectivity												
<b>ESTIMATING SYSTEMS</b> (Recommendation 13-3)												
DFARS changes for ten percent withhold												
<b>SHOULD-COST ANALYSIS</b> (Recommendation 13-4)												
Mandate risk assessment in DFARS												
<b>FINAL OVERHEAD SETTLEMENT</b> (Recommendation 13-5)												
Implement low dollar/low risk sampling plan												
Establish goals and tracking system												
Revise FAR 42.705 and 52.216-7/52.216-13												
Develop procedures requiring timely submission												
Implement audit plan for incurred cost audits												

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## **Metrics**

### **Forward Pricing Rate Agreement**

The following metrics will be used to measure implementation of the recommendations:

- Number of tailored agreements.
  - Functional review time saved.
  - Negotiation time saved.
- Number of continuous updates.
  - Administrative time saved (no review board action).
  - Functional review time saved.
  - Negotiations completed.

Source: DCMC

### **Estimating Systems**

The time spent by ACOs, auditors, and contractors on issues dealing with estimating systems can be measured. As a result of the implementation of the recommended changes, all parties should experience a decrease in the amount of time, and therefore money, on issues involving estimating systems.

Source: DCMC/DCAA

### **Should-Cost Analysis**

- Number of customer requests for reviews.
- Number of risk assessments completed.
- Number of should-cost reviews.

Source: DCMC

## **Final Overhead Settlement**

The following metrics are suggested to measure implementation of the recommendations contained in this section of the report:

- Number and percent of contractors which fail to comply with due dates for submission of final incurred cost proposals.

Source: DCAA

- Maximum and average cycle times for receipt of contractor submission.

Source: DCAA

- Maximum and average cycle times for completion of incurred cost audits.

Source: DCAA

- Number and percent of audits not completed within established time limits.

Source: DCAA

- Maximum and average cycle times for completion of negotiation and other final resolution actions.

Source: DCMC

- Number and percent of negotiations and other final resolution actions not completed within established time frames.

Source: DCMC

- Amount of appropriated contract funds cancelled prior to contract closeout.

Source: DFAS

- Number and dollar value of overage contracts.

Source: DCMC

## **DRAFT MEMORANDUM**

**MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS  
DIRECTOR, DEFENSE LOGISTICS AGENCY**

**SUBJECT: Defense Federal Acquisition Regulation Supplement (DFARS) Case Submission for  
Estimating System**

The enclosed draft DFARS language was prepared by the Process Action Team (PAT) examining new ideas related to performing contract administration. The changes are necessitated by the improvement of the estimating system process. It is essential that each Service and Agency support this initiative to assure maximum utilization and success.

I am directing the Director of the Defense Logistics Agency to develop new DFARS changes that embody the principles outlined by the PAT. Submission of the new changes is to be completed by \_\_\_\_\_. This DFARS development effort should be catapulted to the front of the process and expedited so that implementation can be accomplished without the normal bureaucracy.

**Signature Block  
USD (A&T)**

**Attachment**

**Copy: DCAA**

**ATTACHMENT 1**

**DRAFT DFARS LANGUAGE FOR ESTIMATING SYSTEM**

Change the language in DFARS 215.811-70(f)(6), Monitoring contractor's corrective action as follows:

**FROM:** The auditor and ACO will monitor the contractor's progress in correcting deficiencies. If the contractor fails to make adequate progress, the ACO shall take whatever action is necessary to ensure that the contractor corrects the deficiencies. Examples of actions the ACO can take are: bringing the issue to the attention of higher level management, reducing or suspending progress payments (see FAR 32.503-6), and recommending non-award of potential contracts.

**TO:** The auditor and ACO will monitor the contractor's progress in correcting deficiencies. If the contractor's estimating system had been determined to be inadequate and the contractor has not made adequate progress toward correcting the system, the ACO shall reduce progress payments by ten percent (see FAR 32.503-6). This reduction will remain in effect until the contractor's estimating system is determined by the ACO to be adequate.

Change DFARS 252.215-7002:

**Add to (e)(2):** The contractor shall take prompt action to correct deficiencies in its estimating system or corrective action plan.

**Add: (e)(3)** Contractors who do not maintain an adequate estimating system are subject to potential penalties as described in DFARS 215.811-70(f)(6)

## **DRAFT MEMORANDUM**

**MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS  
DIRECTOR, DEFENSE LOGISTICS AGENCY**

**SUBJECT: Defense Federal Acquisition Regulation Supplement (DFARS) Case Submission for  
Should-Cost Analysis**

The enclosed draft DFARS language was prepared by the Process Action Team (PAT) examining new ideas related to performing contract administration. The changes are necessitated by the improvement of the should-cost analysis process. It is essential that each Service and Agency support this initiative to assure maximum utilization and success.

I am directing the Director of the Defense Logistics Agency to develop new DFARS change that embodies the principles outlined by the PAT. Submission of the new changes is to be completed by \_\_\_\_\_. This DFARS development effort should be catapulted to the front of the process and expedited so that implementation can be accomplished without the normal bureaucracy.

Signature Block  
USD (A&T)

Attachment

Copy: DCAA

ATTACHMENT 2



**DRAFT DFARS LANGUAGE FOR SHOULD-COST ANALYSIS**

Change DFARS 215.809:

**Add:** (e)(iv) Contact the DCMC Overhead Center of Excellence at (703) 274-6456 for questions on overhead should-cost analysis.

Change DFARS 215.810:

**Add:** (b)(ii) ...as appropriate, based on risk assessment.

ATTACHMENT 2A

## **DRAFT MEMORANDUM**

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY  
DIRECTOR, DEFENSE CONTRACT AUDIT AGENCY  
DIRECTOR, DEFENSE PROCUREMENT

SUBJECT: Reduced Cycle Time on Final Settlement of Contractors' Overhead Rates

In his September 14, 1994 memorandum to all major DoD components, the Secretary promoted reduction of process cycle time as "a powerful weapon ... which generates more efficient processes, greater product quality and improved organizations for less costs." Additionally, Dr. Perry challenged "each Military Department and Defense Agency to establish performance agreements that will reduce cycle times by at least 50 percent by the year 2000."

The Process Action Team (PAT) on contract administration reform has developed a series of recommendations which, when implemented, should lead to a substantial reduction in the cycle time required to settle final overhead rates at defense contractors. Achievement of the cycle time reduction goal will require improvements by all parties involved in the process, including the Defense Contract Management Command (DCMC), the Defense Contract Audit Agency (DCAA), and defense contractors.

To implement the PAT's recommendations, the DoDIG and DCAA need to finalize and implement a low dollar/low risk sampling plan. DCAA will develop an audit plan to meet newly established goals for timely overhead audits. The Director, Defense Procurement is tasked with the responsibility for processing the regulatory changes outlined in the PAT's report. DCMC is expected to establish performance goals and a tracking system for the negotiation and final resolution processes, and to assure contractor compliance with the revised contract requirements.

Please take the actions necessary to execute this improvement plan. I am confident that significant benefits will result.

Signature Block  
USD (A&T)

ATTACHMENT 3

**DRAFT FAR LANGUAGE FOR FINAL OVERHEAD SETTLEMENT**

Change FAR 42.705-1(b)(1):

**FROM:** In accordance with the Allowable Cost and Payment Clause at 52.216-7 or 52.216-13, the contractor shall submit to the contracting officer and, if required by agency procedures, to the cognizant auditor a final indirect cost rate proposal reflecting actual cost experience during the covered period together, with supporting cost or pricing data.

**TO:** In accordance with the Allowable Cost and Payment Clause at 52.216-7 and 52.216-13, the contractor should submit to the contracting officer and, if required by agency procedures to the cognizant auditor a final incurred cost proposal together with supporting cost or pricing data as follows:

- (i) Schedule of Proposed Rates for each Expense Pool.
- (ii) Statement of Pool and Base Costs for each Proposed Indirect Expense Rate listing the proposed amount by account with unallowable costs specifically identified and excluded from the proposed pool.
- (iii) Schedule of Allowable Direct Costs by Flexibly-priced Contract (or reference to applicable accounting records if data is too voluminous).
- (iv) Schedule of Allocation Base Amounts by Flexibly-priced Contract (if not otherwise covered by item iii).
- (v) Schedule of Hours and Costs proposed on Time & Material (T&M)/Labor Hour Contracts (if applicable).
- (vi) Schedule of Government Contract participation in the Indirect Expense Pools.
- (vii) Schedule of Facilities Capital Cost of Money Factors computation (if applicable).
- (viii) Schedule or computation of allocable Independent Research and Development/Bid and Proposal (IR&D/B&P) costs (if applicable).

These items represent the minimum data necessary to begin the required audit, and compliance with this requirement does not limit the contracting officer's right to require, on a case by case basis, submission of additional data considered necessary to support the proposal.

ATTACHMENT 3A

Change FAR 52.216-7(d)(2) and FAR 52.216-13(c)(2):

**FROM:** The Contractor shall, within 90 days after the expiration of each of its fiscal years, or by a later date approved by the Contracting Officer, submit ...

**TO:** The Contractor shall, within six months after the expiration of each of its fiscal years, or by a later date approved by the Contracting Officer in cases of extreme hardship, submit ...

**FROM:** ...proposed final indirect cost rates for that period and supporting cost data specifying the contract and/or subcontract to which the rates apply.

**TO:** ...proposed final indirect cost rates for that period and supporting cost data as specified at FAR 42.705-1(b)(1).

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CHAPTER FOURTEEN

# COST MONITORING

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## Introduction

This chapter focuses on cost monitoring, a formal Department of Defense (DoD) program to monitor a contractor's policies, procedures and practices for managing and controlling costs. Cost Monitors perform a variety of tasks including Forward Pricing Rate Agreements (FPRAs) and functional reviews with the assistance of other Defense Contract Management Command (DCMC) specialists and the Defense Contract Audit Agency.

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## Objective

Identify policy improvements associated with cost monitoring reviews.

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## Recommendation

### *CMP Flexibility*

Change DoD and Defense Contract Management Command (DCMC) policy to allow Contract Administration Offices (CAOs) more flexibility in planning and executing their Cost Monitoring Programs (CMPs) by (Recommendation 14-1):

- Deleting Defense Federal Acquisition Regulation Supplement (DFARS) Part 242.7003-1 (b).
- Renumbering DFARS Part 242.7003-1(a) to DFARS Part 242.7003-1.
- Deleting Defense Logistics Agency Directive (DLAD) 5000.4, Contract Management, Chapter 14, subparagraph C. 3. d., and renumbering the remaining subparagraphs.

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## Discussion

*Change DoD and Defense Contract Management Command (DCMC) policy to provide Contract Administration Offices (CAOs) more flexibility in planning and executing their Cost Monitoring Programs (recommendation 14-1).*

To clarify DoD policy and provide CAOs more flexibility in planning CMPs, the Process Action Team (PAT) recommends deleting DFARS Part 242.7003-1(b) and renumbering DFARS Part 242.7003-1(a) to DFARS Part 242.7003-1.

The renumbered DFARS Part 242.7003-1 paragraph would then read:

"The annual cost monitoring plan is a schedule for reviewing contractor activities that have the greatest potential for charging Government contracts with significant amounts of unacceptable costs".

Once DFARS Part 242.7003-1 (b) is deleted and DFARS Part 242.7003-1 is renumbered, the Defense Logistics Agency should revise Defense Logistics Agency Directive (DLAD) 5000.4, Contract Management, as follows:

- Delete Chapter 14, subparagraph C. 3. d., which specifies the percentage of cost monitoring effort.
- Renumber subparagraphs C. 3. e. and C. 3. f to C.3.d. and C.3.e. respectively.

*Current policies allow little flexibility for cost monitoring programs.*

Although CAOs are most knowledgeable about their resources and the contractors with whom they deal, DoD and DCMC policies do not provide CAOs flexibility in determining how much time will be spent performing cost monitoring reviews.

- DoD policy, as contained in DFARS 242.7003-1(b), requires that CAOs stress functional reviews in their annual cost monitoring plans.
- DCMC requires that CAOs spend approximately 50% of their cost monitoring time on functional reviews and the remainder on Forward Pricing Rate Agreements, Forward Pricing Rate Recommendations (FPRRs), and

overhead rate reviews/tracking (hereafter collectively referred to as FPRAs).

*CAOs do not spend 50 percent of their time on functional reviews.*

Theoretically, the current imposed requirement to spend 50% of cost monitoring time on functional reviews ensures that field activities perform these reviews. Functional reviews include examinations of specific contractor operations such as circuit card testing or electronic products development. It is presumed that functional reviews have the potential to save substantial sums for the Government, resulting in lower forward pricing rates. However, analysis of cost monitoring data reveals that CAOs follow the 50% policy more on paper than in fact. For example, the PAT's analysis of Fiscal Year 1993 Annual Cost Monitoring Reports from 46 sites showed that, as a whole, the sites used 172,112 hours of effort.

- 36.2% on functional reviews.
- 33.8% on FPRAs.
- 30% on other cost monitoring activities.

Although the CAOs as a group devoted about equal time to FPRAs and functional reviews, the time devoted by individual CAOs ranged widely. For example, one CAO devoted about 84 percent of its time to FPRAs, about 4 percent to functional reviews, and 12 percent to other activities. Another CAO devoted about 71 percent of its time to functional reviews, 6 percent to FPRAs, and 23 percent to other activities. Although the remaining CAOs fell between these extremes, in only four instances did FPRA and functional reviews receive approximately equal treatment.

The PAT's findings were similar to those of a Quality Management Board (QMB) studying Overhead Cost Control Reviews. The QMB examined 1991 data from 63 CAOs with CMPs responding to a questionnaire. The QMB reported the following:



TYPE OF REVIEW	HOURS EXPENDED	HOURS EXPENDED
FPRA/FPRR	90,579	
Overhead Tracking	<u>21,426</u>	
Total FPRA		112,005
Functional/operational		88,113
Final Overhead Settlement		19,545
Miscellaneous		<u>42,129</u>
TOTAL HOURS		<u>261,792</u>

As determined from the above expended hours, the QMB found that CAOs spent:

- 42.8% of their time on FPRAs,
- 33.7% on Functional Reviews, and
- 23.5% on Final Overhead Settlement and other cost monitoring activities.

*Each hour of FPRA effort returns several times the savings of functional reviews.*

Return on investment analysis shows that FPRAs return the most savings per hour spent. The PAT's review of 1993 Annual Cost Monitoring Reports showed that each hour of FPRA effort returned more than four times the savings of each hour of functional review. The 46 offices used 58,158 FPRA hours which resulted in claimed cost avoidances of \$1,094,026,288 (approx. \$18,811 per hour). This compares with 62,247 hours for functional reviews with claimed cost savings of \$277,567,878 (approx. \$4,459 per hour). Similarly, as shown in the following table, the QMB found that in 1991 FPRAs accounted for more savings per hour than the other types of reviews combined. The table also shows that functional reviews had the **lowest** hourly return.

TYPE OF REVIEW	SAVINGS PER HOUR EXPENDED	PERCENTAGE
FPRA/FPRR & Overhead Tracking & Monitoring	\$12,671	53.6
Final Overhead Settlement	5,884	24.9
Miscellaneous	2,614	11.1
Functional/Operational	2,470	10.4

*CAOs would like additional flexibility in cost monitoring.*

As part of its review, the QMB issued a questionnaire to all DCMC CAOs excluding those represented on the board itself. Part of the questionnaire was designed to gather information about where cost monitoring effort should be placed. In response to a question related to cost monitoring guidance, 55 of the 63 responding CAOs called for more flexibility.

One of the many narrative comments aptly summarized the general opinion:

"Local management should have full discretion on where and when to utilize their resources. This is particularly true in this area [cost monitoring] since size, complexity and changes in systems can vary tremendously from contractor to contractor as well as from year to year at a particular contractor."

## Comparison of Effects

### Benefits

- Deletion of frequently ignored requirement.

- CAO flexibility to structure cost monitoring programs to suit their needs and those of their contractors.
- Potential improved return on investment for each hour of cost monitoring.

### Disadvantages

- Fewer functional reviews may be done.

### Risk Management

There is minimal risk associated with this recommendation. It recognizes an existing situation by eliminating requirements in the DFARS and the DLAD 5000.4 which are generally not observed by CAOs.

### Implementation Plan

RECOMMENDATION	TASK	OPR	QUARTERS AFTER APPROVAL
14-1	A. Delete DFARS 242.7003-1(b)	DDP	3
	B. Amend DFARS 242.7003-1(a) and delete the (a) designation	DDP	3
	C. Delete subparagraph C.3.d of Chapter 14 in DLAD 5000.4	DCMC	2
	D. Renumber subparagraphs C.3.e and C.3.f to C.3.d and C.3.e of Chapter 14 in DLAD 5000.4	DCMC	2

## Milestones

Task Name	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
Recommendation 14-1																			
A. Delete DFARS 242.7003-1(b)																			
B. Amend DFARS 242.7003-1(a) and delete the (a) designation																			
C. Delete subparagraph C.3.d of Chapter 14 in the DLAD 5000.4																			
D. Renumber subparagraphs C.3.e and C.3.f to C.3.d and C.3.e of Chapter 14 of DLAD 5000.4																			

## Metrics

- DFARS Part 242.7003-1 (b) is deleted.
- DFARS Part 242.7003-1 (a) is renumbered to DFARS Part 242.7003-1.
- DLAD 5000.4, Contract Management Chapter 14, subparagraph C. 3. d. is deleted and the remaining subparagraphs renumbered.

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CHAPTER FIFTEEN

# CONTRACT CLOSEOUT

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## **Introduction**

Defense Contract Management Command (DCMC) customer survey data identified contract closeout as one of the most important services provided and one with which customers are least satisfied (DCMC, 1993). Public Law 101-510 established time limits for the use of budgeted program dollars. When contracts are overage for closeout, program funds are placed at risk. If contracts are not closed in a timely manner and a Government financial obligation remains outstanding, requirements budgeted in an earlier fiscal year may have to be satisfied from current year funds. This causes an unnecessary limitation on assets intended to be acquired with current year funds. To address this matter, the Air Force Materiel Command (AFMC) initiated an Interagency Closeout Process Action Team (PAT) (AFMC, 1994).

One requirement of the Contract Administration Services (CAS) PAT's charter is to validate the AFMC/Interagency PAT's recommendations. The PAT was also chartered to identify reengineering opportunities and develop an implementation plan. The results of the validation and the reengineering opportunities are identified in the "Recommendations" section below.

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## **Objective**

The objective is to provide modern business practice recommendations that have significant impacts on reducing closeout cycle times. By accomplishing this objective, the Government will be able to more effectively apply reduced resources where and when needed. Specifically, the PAT concentrated on:

- Minimizing funds lost due to expiration.
- Eliminating non-value added efforts within the Government and industry.
- Reducing cycle time for contract closeout.

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## Recommendations

### *AFMC report review*

The PAT agrees with the concept and direction of the AFMC/Interagency PAT Report. Alternatives to selected specific recommendations are proposed in the discussion (Recommendation 15-1).

### *Pre-validation of DD Form 250 data electronically against the database*

Implement a process to pre-validate DD Form 250 data electronically prior to acceptance into the database. Incorporate this capability into the planning and implementation of the Standard Procurement System (SPS)/Mechanization of Contract Administration Services (MOCAS) migration strategy (Recommendation 15-2).

### *Standardize contract data tracking*

Eliminate the option to use a letter of transmittal in lieu of a DD Form 250 whenever data items included on a Contract Data Requirements List (CDRL) are separately priced or require tracking by DCMC. If a determination is made that the item must be tracked by DCMC, then the item will be subject to inspection and acceptance and a DD Form 250 requirement. Data items accompanied by letters of transmittal will not be input into MOCAS as deliverables, will not be tracked, and will not be considered by DCMC at contract closure (Recommendation 15-3).

### *Expand system-generated notices*

Expand current notification capabilities within the automated contract management system to ensure efficient contract administration. The expanded notification capability should be incorporated into the planning and implementation of the SPS/MOCAS migration strategy (Recommendation 15-4).

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## Discussion

### *AFMC report review (Recommendation 15-1)*

As noted in the introduction, the PAT was to validate the 40 recommendations (Attachment 1) made in the AFMC/Interagency PAT report. The validation is complete and the PAT agrees with the concept and direction of the report in terms of its objective to improve the closeout process and make more efficient use of resources. Because of changes that have occurred since publication of the AFMC/Interagency PAT report, some recommendations are no longer applicable or have already been implemented. The PAT has identified specific recommendations that should be pursued using alternative approaches discussed below.

#### **AFMC PAT Recommendation 8: Revise Federal Acquisition Regulation (FAR) 42.7 to permit "interim final" billing rates (OFPP, 1994).**

Allowing an interim settlement of indirect costs based upon negotiated estimates of the final indirect cost rates would be a useful tool in minimizing the loss of expiring funds. Since this is not prohibited by law or regulation, recommend implementation be accomplished by Office of the Secretary of Defense (OSD) policy letter instead of a FAR change. The policy letter would be as effective and much less time consuming than a FAR change.

#### **AFMC PAT Recommendation 13: Raise "Quick Closeout" threshold from \$500,000 to \$1,000,000.**

The PAT concurs with the AFMC/Interagency PAT recommendation; however, the PAT also recommends pursuing action through Defense Logistics Agency (DLA) to increase the 15 percent limitation on total unsettled indirect costs allocable to cost-type contracts for that given fiscal year. FAR 42.708(a)(2)(ii) authorizes agencies to exceed the 15 percent restriction. Providing the administrative contracting officer (ACO) the authority to waive the 15 percent restriction based upon risk assessment would provide flexible coverage for all contracts administered by DCMC. The risk assessment should consider the status of the contractor's accounting, estimating, and purchasing systems. Other areas of consideration would be Cost Accounting Standards violations, recent Defense Contract Audit Agency (DCAA) Form 1



activity, and any additional evidence the ACO feels pertinent. Often DCAA can determine an acceptable threshold with the contractor, and provide a recommendation to the ACO. Advance agreements should be encouraged with the ACO, DCAA, and the contractor as participants.

**AFMC PAT Recommendation 17:  
DCMC/DCAA/Contractor enter into an Advance Overhead  
Memorandum of Agreement (MOA).**

The PAT agrees that a MOA enhances communication channels and clearly defines expectations for all concerned. The AFMC/Interagency PAT recommendation includes many elements which could be addressed by a MOA, such as a detailed schedule for submittal, review, and negotiation of overhead rates and a predetermination of what constitutes adequate data for the final overhead proposal submission. However, a financial incentive should not be required for the parties to comply with the MOA terms and conditions. The benefit of using resources more efficiently should ensure cooperation of the parties. NOTE: The chapter, Oversight of Overhead Rates, also discusses adequacy of data for final overhead proposal submission.

**AFMC PAT Recommendation 18: Establish tracking  
metrics for recommendation 17, overhead MOA  
implementation.**

Creating an additional reporting requirement to monitor the establishment and execution of MOAs will result in additional workload on DCMC activities. If it is determined that collection of the information is necessary, this element should be incorporated into an existing report such as "Report on Status of Open Overhead Negotiations."

**AFMC PAT Recommendation 19: DCMC in consultation  
with DCAA and the military commands establish and  
maintain a comprehensive database which measures the  
entire process and the associated sub-processes to  
establish overhead rates.**

The PAT concurs with establishing a comprehensive database which measures the entire overhead process. The PAT feels it would be more beneficial to sanitize current reporting requirements, eliminate elements with no value, and compile the remainder into the above stated comprehensive database.

**AFMC PAT Recommendation 25: Require contractor to identify Accounting Classification Reference Number (ACRN) and Contract Line Item Number (CLIN) on Bureau Vouchers (SF Form 1034).**

The PAT partially agrees with this recommendation. Inclusion of the CLIN on the voucher would allow payment from the appropriate ACRN(s). This would preclude the need for inclusion of the ACRN on the invoice.

**AFMC PAT Recommendation 28: Defense Acquisition Workforce Improvement Act (DAWIA) certification of Defense Finance and Accounting Service (DFAS) payment personnel.**

The PAT concurs with the need for thorough training of DFAS personnel. But this training would not need to be as extensive as that required for DAWIA certification. There have been improvements in the training programs and desk procedures that will suffice in meeting the objective of the AFMC/Interagency PAT recommendation.

***Pre-validation of DD Form 250 data electronically against the database (Recommendation 15-2)***

The implementation of a process to pre-validate a Material Inspection and Receiving Report (DD Form 250) electronically against the database will substantially increase the ability to correct discrepancies. These discrepancies, which can delay contract closure, are the result of differences between contract data in the system and data from a DD Form 250. The chapter in this report entitled "Enterprise Automation" addresses recommendations to ensure integrity of the contract data which also appears on the DD Form 250. Key elements on the form must be identical to the database.

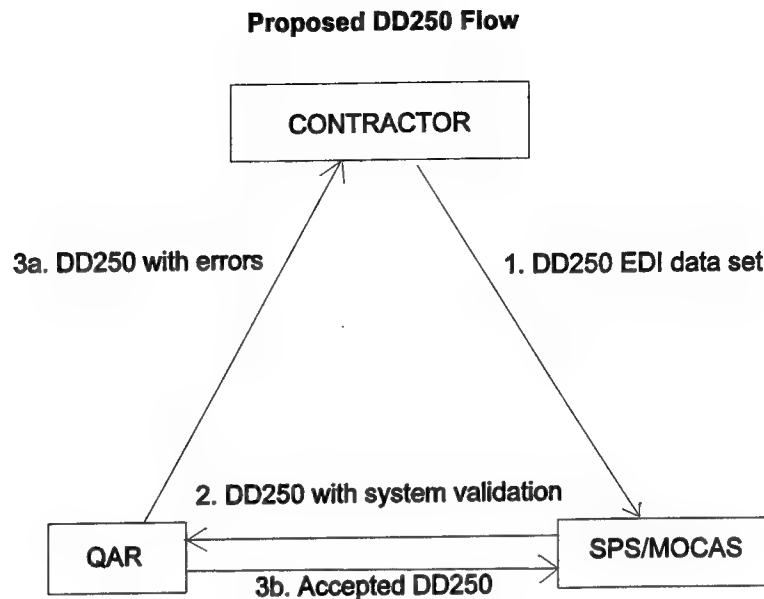
The focus of this recommendation is to identify the most efficient and accurate means to input correct data. This process would be utilized when inspection and/or acceptance are at source and also at destination. After pre-validation, the Quality Assurance Representative (QAR) would electronically "release" rather than "sign" the DD Form 250 when destination inspection and/or acceptance were required. The process would merely release the shipment information into the database without the requirement for electronic signature to indicate inspection/acceptance. The "release" process would be equivalent to that currently used to input shipping, but not

inspection/acceptance, data which is input later. Although QARs are not currently responsible for performing the task of releasing DD Form 250 data for shipments requiring inspection and acceptance at destination, use of Electronic Commerce/Electronic Data Interchange (EC/EDI) pre-validation technology will make the task much easier and provide a standardized method to process all DD Forms 250.

The significant advantage of this recommendation is that discrepancies will be identified immediately and corrected before the information is authorized to be released into the system by the Quality Assurance Representative (QAR). In the current process, notification that the DD Form 250 information has been accepted into the database does not occur until after the contractor has mailed the signed DD Form 250 to an input clerk who keys the information into the database and awaits receipt of an overnight validation. With the use of EC/EDI, the DD Form 250 can be electronically generated, validated, and signed by the Government representative thereby eliminating the possibility of repeating the input of data which may not be accepted into the system.

This recommendation coincides with the Progress Pay/DD Form 250/EC/EDI Project underway at DLA Systems Design Center (DSDC). However, that project does not specifically address the real-time validity system check aspect of this recommendation. Pre-validation of the electronic DD Form 250 will increase the timeliness and accuracy of the database, as well as significantly improve efficiency of the entire process.

The diagram below illustrates the proposed flow of the DD Form 250 data:



***Standardize contract data tracking (Recommendation 15-3)***

A DD Form 250 will be used for all items contained in the Contract Data Requirements List (CDRL)(DD Form 1423 or equivalent) that require Government inspection and acceptance and/or that are separately priced. The status of CDRL items accompanied by a letter of transmittal will be the responsibility of the Procuring Contracting Officer/Program Management Office (PCO/PMO), not be monitored by DCMC and not impact DCMC closeout.

Currently, CDRL items which do not require a DD Form 250 must be manually monitored by DCMC. These items are not individually entered into the present MOCAS system but are included in an item called "1423DD." This "1423DD" entry holds the contract in an open status until it is verified that all deliverable items under the contract, whether they required a DD Form 250 or not, have been completed. The process involves a query to and confirmation from the PCO/PMO that all contractual requirements have been satisfied prior to closeout. This is a time-consuming effort.

Also, CDRL items may be separately priced but do not require a DD Form 250. This circumvents the normal payment process which is based upon a match of information on the invoice to that contained on an accepted DD Form 250. If the

item does not require a DD Form 250, it is necessary to verify that the item has been completed prior to approval and payment of a commercial invoice. This is a time-consuming process.

If non-receipt of an item would seriously impact a contract or if a CDRL item is separately priced, it should be submitted via a DD Form 250 with Government acceptance. The item(s) would also be included in the Government's automated system as a delivery requirement to be monitored by DCMC. The status of CDRL items that are submitted via letter of transmittal would not be monitored by DCMC, would not be included in the automated system, and would not require verification of completion prior to contract closure by the ACO.

*Expand system-generated notices (Recommendation 15-4)*

Expanded notification would provide more assistance to ACOs in performing their contract administration duties and should be used to expedite their closeout process. MOCAS currently provides some notices which are used as suspenses/reminders for actions that are required; i.e., patent rights, special tooling, financial reporting, etc. These notices are commonly referred to as alerts and should not be confused with Advanced Liaison on Emergent Risk to Schedules (ALERTS) referenced in the chapter of this report entitled "Enterprise Automation." While the current system provides useful information, it does not address conditions such as expiring funds, potential reconciliation problems, and missing or incorrect shipment/acceptance information. Issues related to these situations often impede timely closeout at contract completion.

The system should also provide for the use of "tailored" notices to identify specific contract requirements that may not be routine enough to warrant a "standard" notice. The ultimate use of the notices would be to identify the contract administration actions required on a contract; and, after these actions have been accomplished, the system would allow automatic contract closeout. This will help promote a change in the perception throughout DCMC that all contracts in Part A of the Contract Administration Report (CAR) presumably require more contract administration effort than those appearing in Part B.

The PAT reviewed the underlying criteria, which determine how contracts are categorized in MOCAS, and found the criteria to be deficient in terms of pinpointing those contracts which require the most attention or effort. For example, the criteria dictate that contracts in excess of \$100,000 be categorized as Part A. However, there are many contracts in excess of \$100,000 which have no special requirements, authorize acquisition of a large volume of low-priced units, and have been satisfactorily supplied on numerous prior contracts. These contracts would not require the extra attention and labor presently required to close.

In the absence of Part A/Part B distinctions, but using both standard and tailored notifications, the ACO would be accomplishing closeout actions throughout the life of the contract, eliminating the need for manual intervention immediately preceding contract closeout. Once the standard and tailored actions have been accomplished and the appropriate indicators cleared in the system, the contract would close automatically in the MOCAS system as it currently exists. An example of this approach, which is currently used, is the procedure for ensuring that periodic progress payment reviews are performed. Under the procedures outlined in paragraph 2.2.2 of Defense Logistics Agency Manual (DLAM) 8000.2, MOCAS Users Guide, once the review date has elapsed, progress payments can not be automatically paid until the mandatory review has been completed. Similar indicators could be used in conjunction with other notices.

With an integrated shared data repository, closeout information would be available concurrently to the buying and administering activities.

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## **Comparison of Effects**

### **Benefits**

*Pre-validation of DD Form  
250 data electronically  
against the database*

- Produces an instantaneous validity check of the DD Form 250 for the QAR.

- Reduces resources used to process rejected DD Forms 250.

## Disadvantages

### *Pre-validation of DD Form 250 data electronically against the database*

- Although this recommendation will require the use of Central Design Activity (CDA) resources, it corresponds with current DLA projects.
- The contract database must be accurate for the pre-validation process to be effective. We cannot delay signing DD Forms 250 because our database contains errors. However, implementation of an integrated real-time data repository as discussed in the chapter of this report entitled "Enterprise Automation" and the use of EC/EDI, will significantly increase the accuracy of the database.

## Benefits

### *Standardize contract data tracking*

- Removes an impediment to automatically close contracts which require letters of transmittal.
- DCMC resources are better utilized by limiting responsibility to track only critical data.
- Use of a DD Form 250 for all deliverable CDRL items which are separately priced will ensure conformance with the automated payment process.

## Disadvantages

### *Standardize contract data tracking*

- Additional effort by the Government is required to inspect/accept items that were previously sent via letter of transmittal. However, by imposing a DD Form 250 requirement for those items which are crucial to successful completion of the contract, this will ensure that delivery of the item is efficiently monitored by DCMC.

## Benefits

### *Expand system-generated notices*

- Permits timely notification to ACOs and others of impediments to closeout.
- Allows automatic closeout once all requirements/problems have been resolved.
- Allows ACOs and others to prioritize workload efficiently.

## Disadvantages

### *Expand system-generated notices*

- The recommendation would require additional Automatic Data Processing (ADP) support and training; however, the expected return on investment would outweigh the initial expenditure
- Changing the present way of doing business is often not well received; however, the current downsizing environment mandates change.



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## Risk Management

### *Pre-validation of DD Form 250 data electronically against the database*

The use of EC/EDI technology has been proven to be beneficial and is being developed currently in DoD (EC/EDI PAT). The implementation of electronic pre-validation will reduce the amount of risk in the process by ensuring that DD Form 250 data is matched before it is accepted.

### *Standardize contract data tracking*

If this recommendation is not adopted, tracking of CDRL items shipped with a letter of transmittal will remain a manual process, and one which will delay contract closeout. As streamlining continues, we will not be able to effectively track deliverables manually. By tracking only those items which the procuring office has identified as being crucial to contract performance, i.e., by requiring a DD Form 250, DCMC will be able to place emphasis where it is needed.

### *Expand system-generated notices*

This recommendation proposes the use of automation to increase an ACO's efficiency in performing contract administration duties. "Tailored" notices will require manual input by a CAO but the balance will be automatically generated from contract information in the system. The ability for manual input must be retained in order to make the system flexible for unique situations. By not adopting the recommendation, DCMC will continue to be reactive rather than proactive. Furthermore, the closeout process for Part A contracts will continue to be manual and redundant, instead of automatic. Once a necessary CAS action is completed, there is no need to revisit it, thereby enhancing efficiency and increasing the possibility of automatic closeout. The objective would be to close out all contracts this way.

There is a risk that managers could become too dependent upon notices; however, they will have the advantage of using automated notices to manage their workload and to help ensure that all required CAS activities are being performed.

## Implementation Plan

Recommendation Number	Task	OPR	Date after Approval
15-1	A. OSD-DDP issue policy letter in lieu of FAR change to permit interim final billing rates	AFMC	1st Qtr
	B. DLA/DCMC issue policy letter to raise quick closeout threshold from \$500,000 to \$1,000,000	DCMC	1st Qtr
	C. Eliminate requirement for a financial incentive to ensure participation in an Advance MOA	AFMC	1st Qtr
	D. Utilize existing report to track metrics for overhead MOA implementation instead of creating an additional report	AFMC	1st Qtr
	E. Sanitize current reporting requirements and compile the remainder into a comprehensive database to measure the entire overhead process	AFMC DCMC	1st Qtr
	F. Require inclusion of the CLIN only on Bureau Vouchers instead of CLIN and ACRN	AFMC	1st Qtr
	G. Require tailored training for DFAS personnel instead of DAWIA certification	AFMC DFAS	1st Qtr
15-2	A. Include pre-validation of DD Form 250 in current SPS/MOCAS migration strategy	DCMC SPS/PMO	2nd Qtr
15-3	A. Revise DoD 5010.12-M, Procedures for the Acquisition and Management of Technical Data	OSD (CALS & EDI/PP)	2nd Qtr
	B. Revise Part VI, Chapter 19 of DLAD 5000.4	DCMC	2nd Qtr
	C. Revise Part XIV, Chapter 2 of DLAD 5000.4	DCMC	2nd Qtr
	D. Change DFAS Columbus Desk Procedure 201 to eliminate input of DD Form 1423 dummy line item in MOCAS	DFAS	2nd Qtr
15-4	A. Initiate upgrade effort to coincide with implementation of Task 2-1B, Enterprise Automation	SPS/PMO	4th Qtr

## RESOURCE REQUIREMENTS

*Pre-validation of DD Form  
250 data electronically  
against the database*

The EDI of DD Forms 250 is already resourced by DLA; however, the additional cost of pre-validation has not been resourced. Based on prior estimates, programming the pre-validation effort should not require more than two additional workyears to complete.

*Standardize contract data  
tracking*

The workyears required to prepare policy and procedure changes should be minimal, not to exceed one-half workyear. The amount of data which requires tracking will impact the extent of resources required. There may be an increase in DD Form 250 input hours as a result of this recommendation. However, any increase will be more than offset by savings gained from the elimination of manual data tracking.

*Expand system-generated  
notices*

This recommendation should be incorporated in the overall SPS/MOCAS migration strategy and include the participation of functional personnel under the direction of the SPS/PMO.

## Milestones

Task Name	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1
<b>Recommendation 15-1</b>					
A. OSD-DDP issue policy letter					
B. DLAD/DCMC issue policy letter					
C. Eliminate financial incentive					
D. Utilize existing report to track metrics					
E. Sanitize current reporting requirements					
F. Include CLIN on Bureau Vouchers					
G. Require tailored training					
<b>Recommendation 15-2</b>					
A. Include pre-validation of DD Form 250 in current SPS/MOCAS migration strategy					
<b>Recommendation 15-3</b>					
A. Revise DoD 5010.12-M					
B. Revise Part VI, Chapter 19 of DLAD 5000.4					
C. Revise Part XIV, Chapter 2 of DLAD 5000.4					
D. Change DFAS operating procedures					
<b>Recommendation 15-4</b>					
A. Initiate upgrade effort					

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## Metrics

*Pre-validation of DD Form  
250 data electronically  
against the database*

The metric will be a Yes or No to the question; has pre-validation of electronic DD Form 250 been implemented?

Source: DCMC

The number of "A" coded invoices should be reduced. ("A" coded invoices are those which can not be paid because the DD Form 250 has not been input/accepted into the system).

Source: DFAS

Quantity of recycled DD Forms 250 should be reduced to zero.

Source: DCMC

*Standardize contract data  
tracking*

Increased customer satisfaction level in the area of DCMC responsiveness to inquiries regarding status of deliverable data.

Source: Annual DCMC Customer FOCUS Survey Results

Amount of time spent researching "letter of transmittal" data will be reduced.

Source: Data call by DCMC

Before/after trend analysis of time spent by functional area in monitoring "1423DD" dummy line items.

Source: Data call by DCMC

***Expand system-generated  
notices***

The cycle time to close contracts should be reduced.

Source: DCMC

Measure amount of expired funds lost/not lost as a result of taking timely action(s).

Source: DCMC

Increased customer satisfaction levels for contract closeout.

Source: Annual DCMC Customer FOCUS Survey Results

## ATTACHMENT 1

**AFMC/INTERAGENCY CONTRACT CLOSEOUT PROCESS ACTION TEAM  
FINAL REPORT AND ACTION PLAN  
SUMMARY OF RECOMMENDATIONS**

<b>Recommendation Number</b>	<b>Recommendation Title</b>
1	Revise DLAM 8000.3
2	Change DD 1716 Distribution Process
3	Process for DD 1716 Response
4	Contract Structure for Multiple Funds
5	Contract Planning for Expenditure
6	Option Planning for Expenditure
7	Modification Planning for Expenditure
8	Interim Final Billing
9	Re-opener Clause Resolution Schedule
10	Tracking Mechanism for Re-openers
11	Planning Government Property Disposition
12	Joint Government Property PAT
13	Raise Quick-Closeout Threshold
14	Re-emphasize Use of Quick-Closeouts
15	Monitoring Quick-Closeout Eligibility
16	Prenegotiation of All T&M rates
17	Advance Overhead MOA
18	Advance Overhead MOA Tracking
19	Overhead Process Data Base
20	Contract Distribution Lists
21	Standard Modification Format
22	Validation of Accounting Data
23	Trusted Agents at Funding Stations
24	Require DD250s for FP Services

25	Line Item Billing for Cost Contracts
26	PKZ Transaction
27	"Line Item" COMPASS
28	DAWIA Certification of Payment Personnel
29	Contract Payment Blocks of Instruction
30	MOCAS Enhancements
31	Interface Communication Tests
32	MOCAS Verification of MILSCAP
33	Automate PK-9 Search in AMIS
34	Modify 7140 Report
35	Implement AFMC Standard System Initiative
36	SysComs Review of Standard AFMC System
37	ACO Mods Thru Procurement Systems
38	Contract Closeout Process Metrics
39	Joint Contract Termination PAT
40	Joint Provisioning Item Order PAT

ATTACHMENT 1 continued



# APPENDIX A

## CHARTER

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ACQUISITION AND  
TECHNOLOGY

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON  
WASHINGTON DC 20301-3000



November 4, 1994

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS  
COMPTROLLER OF THE DEPARTMENT OF DEFENSE  
GENERAL COUNSEL OF THE DEPARTMENT OF DEFENSE  
INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE  
DIRECTOR, DEFENSE LOGISTICS AGENCY  
DIRECTOR, DEFENSE PROCUREMENT  
PRESIDENT, DEFENSE ACQUISITION UNIVERSITY

SUBJECT: Process Action Teams on the Procurement Process and Contract Administration

As part of the effort to reform the acquisition process within the Department of Defense, I am creating process action teams on the Procurement Process and Contract Administration. A Board of Directors, composed of key acquisition personnel from the Services, DLA, DCAA and the Office of the Director, Defense Procurement, has been established to oversee these process action teams. I am appointing COL Blair Peterson, Commander, Defense Contract Management Area Office (DCMAO) Detroit, to lead the process action team on Contract Administration and Mr. Robert Rumberger, Associate Director, Aircraft Support Contracts, Naval Air Systems Command Headquarters, to lead the process action team on the Procurement Process. I have also approved the attached charters for the teams identifying the task objectives and establishing a reporting schedule.

Please immediately identify your representatives to the team in accordance with section IV of the charters. Your representatives should be people with experience in these processes who can take a "clean sheet of paper" approach with a DoD-wide perspective. Provide the names of your representatives to your member on the Board of Directors, or to COL Charles Adams of Mrs. Preston's staff at (703) 697-6398 (DSN 227-6398).

The establishment of these process action teams is another major step in addressing changes in the Defense acquisition process that will improve the way we buy equipment while protecting the public trust. I am dedicated to the success of this effort and request your personal support.

*Paul G. Kaminski*  
Paul G. Kaminski

Attachments:  
As stated



# **CHARTER FOR THE PROCESS ACTION TEAM ON THE CONTRACT ADMINISTRATION PROCESS**

## **I. Background**

DoD's acquisition system is governed by a complex web of laws, regulations, and policies, adopted for laudable reasons over many years. While each rule individually has (or had) a purpose for its adoption, it may add little or no value to the product itself. The collection of rules, especially if applied narrowly without consideration of the specific circumstances, can prevent the system from operating efficiently.

Thus the task involves assessment not only of the individual rules, regulations and policies, but also of their application and the process in which they are applied. Our objective is not to unnecessarily hinder the contracting officer but to help him or her do the job in the most effective and efficient manner by assessing and managing risk.

DoD must advocate a balancing of the risk associated with reducing oversight with the costs to the Government of ensuring compliance. The DoD contract administration process and practices must be reformed so that they are compatible with current realities in terms of management theory, economic conditions, and business trends.

## **II. Authority**

The Under Secretary of Defense (Acquisition Technology) directed that a cross-functional process action team be formed including representatives from OSD, the Military Departments and the Defense Agencies. The Team(s) will develop a specific plan of action that will describe current inefficiencies in the DoD Contract Administration process and provide recommendations to resolve those inefficiencies through aggressive acquisition reform initiatives. The Team(s) will be comprised of appropriate representatives to ensure a broad acquisition perspective. Additional functional and technical support and coordination will be provided from appropriate offices, as needed.

## **III. Purpose**

The Team(s) will develop, within a maximum period of 90 days from being tasked, a comprehensive plan to reengineer specific elements of the contract administration process within DoD to make it more efficient and effective while balancing the nation's interest in socioeconomic goals and ensuring integrity of the contract administration process. The Team shall be guided in their reengineering efforts by the following general goals:

- Reduce the time it takes to accomplish contract administration tasks (cycle time).
- Balance the need for a particular policy or procedure to protect or further a Government interest with the need for efficiency and cost savings, and with the need to innovate, and to manage risk rather than avoid it. Encourage risk management rather than risk avoidance, while ensuring that the Government does not incur undue risk.
- Eliminate non-value added activities. Ensure that oversight (both internal and external), when necessary to ensure compliance with enunciated policies or requirements, is performed in the least intrusive manner, consistent with the protection of the public trust.

#### **IV. Roles and Responsibilities**

The Board of Directors of this process action team will be made up of senior representatives of the acquisition community in the OSD, the Services and the Defense Agencies. The Deputy Under Secretary of Defense (Acquisition Reform) has appointed Colonel Blair A. Peterson, U.S. Army, as the Process Action Team Leader. The Team Leader will be responsible for task accomplishment, management of Team activities, and reporting. The Military Departments, the DoD Inspector General, the Defense Acquisition University, the Defense Finance and Accounting Service, the other Defense Agencies, and the Procurement CIM will provide to the Team full time on-site representatives who are familiar with processes in one or more of the following functional areas:

- Administrative Contracting Officer (ACO)
- Procuring Contracting Officer (PCO)
- Termination Contracting Officer (TCO)
- Cost and Price Analysis
- Contract Auditing
- Small Business
- Quality Assurance
- Statistics
- Production/Manufacturing
- Engineering
- Program Management
- Government Property
- Transportation
- Contractor Payment/Comptroller
- Contract Law
- Data and Information Management
- Other Functional Areas, as needed

Representatives from industry, academia, and OSD will be consulted, as necessary, and ideas and comments will be sought from other interested parties.

## **V. Task Objectives**

a. The Team(s) will be responsible for recommending ways to reengineer the contract administration process, with a focus on a "clean sheet of paper" approach to the particular aspect of the process being reviewed, establishing mechanisms to foster continuous process improvement after the process is reengineered, and enhanced customer support. The Team shall pursue the general goals outlined in Part III while seeking to:

- Eliminate unnecessary bureaucratic procedures and layers of review and approval.
- Eliminate duplication in contract administration efforts and automated systems.
- Alter oversight controls on contractors by embracing commercial practices whenever possible.
- Decentralize decision-making to the lowest practical level and empower people to be innovative in continually seeking to improve the contract administration process.

b. As a general practice, the Team(s) will have responsibility for:

- Assuring data requirements are captured and properly presented as a part of the PAT's activities;
- Identifying equivalent commercial CAS practices in the areas being studied;
- Making recommendations regarding roles and missions changes, or clarifications on roles and missions as may be required by the Team's findings and recommendations;
- Addressing potential impact of the Team's recommendations on infrastructure of involved acquisition organizations;
- Identifying contract financial management data requirements (C/SCSC, CFSR, CPR, C/SSR, CCCR); and
- Establishing specific milestones for actions implementing the Team's recommendations.

c. Initially, the Team(s) will investigate the following specific areas/issues and make recommendations for reengineering the process.

- Identify what contract administration activities are most important to customers and will likely continue as a significant activity after reform.
- Explore the potential for early involvement of field contract administration personnel in formulating acquisition strategy and subsequent pre-award activities. The objectives would be to reduce cycle times, limit resources required to support the process, and ease subsequent contract administration efforts.
- Establish a process for identifying "quality" contractors and identifying how Government contract administration requirements drive contractor and Government staffing levels.
- A separate team, chartered by the Director, Defense Procurement, is to rewrite Part 45, Government Property. This effort will be fully coordinated with the Board of Directors and the PAT Leader.

d. Subsequent to accomplishment of the foregoing actions the following areas will be examined (by the initial team or a follow-on team):

- Oversight of Contractors' Overhead Rates. Specific areas of concern involve the oversight and audit practices involving Forward Pricing Rates, Provisional Billing Rates, Estimating Systems, Should Cost Reviews, Proposal Analysis, and Post-Award Audits.
- Contract Closeout. A Tri-Service PAT recently looked at closeout activities. The PAT's recommendations will be reviewed/validated to identify and implement needed changes in processes and regulations.
- Contract Payment. This area has had considerable study recently, particularly through the Acquisition and Financial Management Council chaired by Dr. Hamre and Mr. Longuemare. PAT efforts will be activated following the conclusion of actions in paragraph c above.

e. Use as a baseline for the review relevant parts of the Federal Acquisition Regulation, e.g., Parts 42, 44, 45, and 46 and related policy guides and manuals. The Team(s) shall apply the following methodology in its approach to investigating reform of the contract administration process.

- Analyze current practices that are determined by the Team to be candidates for reform.
- Identify costs (money, time, performance, personnel) associated with the practices.
- Identify "interested or affected parties" and consult with them about the practices, alternative approaches, preferred solutions, etc.
- Identify alternative approaches that are consistent with the current laws and supportive of the goals, as outlined in Part III of this Charter.
- Recommend the best option for implementing the proposed practices, after identifying the ease or difficulty of adoption of that preferred option.
- Outline any new legislative, regulatory, policy, or administrative changes required to implement proposed options.
- Develop measures of the efficacy of the changes, so DoD can track progress.
- Develop specific implementation plans, taskings, and milestone schedules relevant to each proposed reform initiative/practice.
- Develop a process for follow-up to ensure the changes have been institutionalized. In particular, identify incentives and other mechanisms to ensure changes to, and compliance with, the new processes and procedures are working and an organizational structure to monitor and facilitate implementation.

## **VI. Resources**

The Team(s) will include functional experts and advisors from OSD, the Military Departments, and the Defense Agencies. The Team(s) will also seek ideas and comments from other Federal Agencies, Congressional Offices, and Industry, as appropriate.

While the DUSD(AR) and this PAT examine ways to reengineer DoD's business processes, other DoD components will continue to pursue changes in policies, practices, and regulations to make the existing system function more effectively. The efforts of the Team(s) will be coordinated with the DUSD(AR), either directly by the Team or through the Board of Directors, to ensure its efforts are consistent with the approaches being pursued by the DUSD(AR).

OSD, the Military Departments, and the Defense Agencies will provide the funds to support all costs (e.g., travel, personnel, administrative) of their respective members to the Team. DUSD(AR) will provide funds to support Team travel (other than TDY). DCMC, as the proponent for this Team, will be responsible for providing administrative and logistical support to the Team.



## **VII. Schedule**

The initial Team will begin this effort on October 17, 1994.

The Team(s) will complete their analysis and provide an interim report to the Acquisition Reform Senior Steering Group (ARSSG) and to the DUSD(AR) within 30 days after their effort begins. A draft final report will be coordinated through the ARSSG within 60 days after the Team's efforts begin.

Recommendations will be coordinated within the Military Departments, Defense Agencies, and OSD. A final report and recommendations, with implementing documentation, will be provided to the DUSD(AR) no later than 90 days after the Team(s) begin their work. The final report will be given to the USD(A&T) for his approval.



## APPENDIX B

### SUMMARY OF RECOMMENDATIONS

**Sorted by Chapter**

**B - 1 - 1**

**Sorted by Office of Primary Responsibility**

**B - 2 - 1**



## CAS-PAT Recommendations Sorted By Chapter

08-Feb-95

Chapter	Rec #	Recommendation	Task #	Implementing Task	OPR	Page	PAT POC	ORG	Phone#
Enterprise Automation									
2-1		DoD components performing CAS should reengineer key processes needed to serve customers, automate and integrate them.	2-1A	Reengineer CAS processes identified by PAT	DCMC	2-5	Ron Leong	DLA	818-904-6402
			2-1B	Develop and deploy automated applications	SPS PMO	2-5	Ron Leong	DLA	818-904-6402
Enterprise Automation									
2-2		Expand and accelerate DoD Electronic Commerce & Electronic Data Interchange (EC/EDI) contract award efforts to encompass large purchase contracts.	2-2A	Develop and execute plan to expand ongoing EC/EDI efforts to large purchases.	DUSD(AR)	2-7	Ron Leong	DLA	818-904-6402
Enterprise Automation									
2-3		Standardize CAS transaction data sets, standardize CAS data, and convert existing CAS data to allow electronic sharing and accessibility.	2-3A	Develop standardized CAS transaction data sets	SPS PMO	2-7	Ron Leong	DLA	818-904-6402
			2-3B	Develop standardized CAS data definitions for relational database	SPS PMO	2-7	Ron Leong	DLA	818-904-6402
			2-3C	Convert existing CAS data	SPS PMO	2-7	Ron Leong	DLA	818-904-6402
Enterprise Automation									
2-4		Integrate and demonstrate accessibility to CAS databases by program offices, buying commands, receiving activities, Defense Finance and Accounting Service (DFAS), DCMC, accounting offices, and contractors to support procurement and CAS activities.	2-4A	Integrate SICM pilot with DSDC test of SPS shared data repository	SPS PMO	2-8	Ron Leong	DLA	818-904-6402

Chapter	Rec #	Recommendation	Task #	Implementing Task	OPR	Page	PAT POC	ORG	Phone#
<b>Enterprise Automation</b>									
2-5	2-5	Empower the SPS PMO with the authority, responsibility and accountability to develop and implement an automation system meeting the needs of CAS.	2-5A	Give SPS PMO direct control over team members w/ dedicated personnel	DDP	2-9	Ron Leong	DLA	818-904-6402
			2-5B	Ensure SPO team includes appropriate personnel	SPS PMO	2-9	Ron Leong	DLA	818-904-6402
			2-5C	Develop and execute plan to move MOCAS to open systems architecture	SPS PMO	2-9	Ron Leong	DLA	818-904-6402
			2-5D	Pilot SICM functionality	SPS PMO	2-9	Ron Leong	DLA	818-904-640
			2-5E	Incorporate system features and attributes recommended by PAT	SPS PMO	2-9	Ron Leong	DLA	818-904-6402
			2-5F	Resolve barriers identified by PAT	SPS PMO	2-9	Ron Leong	DLA	818-904-6402
			2-5G	Identify additional funding requirements	SPS PMO	2-9	Ron Leong	DLA	818-904-6402
			2-5H	Provide total SPS funding	OSD(C)	2-9	Ron Leong	DLA	818-904-640
			3-1A	Revise DFARS 242.302(a), Contract Administration Functions	DDP	3-9	Jeff Allan	DLA	703-274-7726
			3-2A	Revise DFARS 207.104, Acquisition Planning	DDP	3-11	Bob Nichol	Army	703-274-8288
3-2	3-2	Establish policies, procedures, and mechanisms to foster teaming of program offices, buying activities, and contract administration organizations.	3-2B	Revise DFARS 207.105, Acquisition Plans	DDP	3-11	Bob Nichol	Army	703-274-8288
			3-2C	Revise DFARS 209.103, Contractor Qualifications	DDP	3-11	Bob Nichol	Army	703-274-8288

Chapter	Rec #	Recommendation	Task #	Implementing Task	OPR	Page	PAT POC	ORG	Phone#
3-2		Establish policies, procedures, and mechanisms to foster teaming of program offices, buying activities, and contract administration organizations.	3-2D	Revise DFARS 215.605, Evaluation Factors	DDP	3-12	Bob Nichol	Army	703-274-8288
			3-2E	Revise DoDI 5000.2 to identify CAS precontractual capabilities	USD(A&T)	3-13	Jeff Allan	DLA	703-274-7726
			3-2F	Share acquisition planning information between buying activities, program offices and DCMC	CAEs	3-13	Jeff Allan	DLA	703-274-7726
			3-2G	Provide DCMC liaisons access to acquisition planning process	CAEs	3-14	Jeff Allan	DLA	703-274-7726
<b>Early CAS</b>									
3-3		Improve the understanding of and appreciation for the capabilities and requirements of all personnel involved in the acquisition process.	3-3A	Provide familiarization training to DCMC personnel on early CAS	DCMC	3-14	Jeff Allan	DLA	703-274-7726
			3-3B	Establish an exchange program between buying activities, program offices, and DCMC	CAEs	3-15	Jeff Allan	DLA	703-274-7726
			3-3C	Prepare early CAS guide for buying activities and program offices	DCMC	3-15	Jeff Allan	DLA	703-274-7726
			3-3D	Conduct forum (or use existing forum) to share early CAS initiatives.	CAEs	3-15	Bob Nichol	Army	703-274-8288
<b>Technical Representatives</b>									
4-1		DCMC's program support responsibility should be addressed in detail in DoD Instruction 5000.2	4-1A	Draft proposed language defining DCMC's program support responsibility for incorporation into DoDI 5000.2	DCMC	4-7	Gerry Stephenson	DoDIG	703-604-9332
			4-1B	Revise DODI 5000.2 to address DCMC's program support responsibility	USD(A&T)	4-7	Gerry Stephenson	DoDIG	703-604-9332

Chapter	Rec #	Recommendation	Task #	Implementing Task	OPR	Page	PAT POC	ORG	Phone#
4-2		Revise DoD Instruction 5000.2 and DLA Directive 5000.4 to require that program managers and DCMC CAOs jointly develop and approve program support plans for all major weapon systems contracts to ensure agreement on contract oversight needs and perspectives	4-2A	Revise DLAD 5000.4 to require CAOs to obtain input and concurrence from program managers on program support plans	DCMC	4-6	Gerry Stephenson	DoDIG	703-604-9332
			4-2B	Revise DODI 5000.2 to require Program Managers to provide input and concurrence on CAO program support plans	USD(A&T)	4-7	Gerry Stephenson	DoDIG	703-604-9332
			<b>Technical Representatives</b>						
4-3		Program offices/DCMC jointly review assignment of tech reps in contractor facilities to identify duplication of CAS effort with the CAO and to delegate functions that should be performed by the CAO. Where duplication exists, tech reps should be eliminated.	4-3A	Issue policy memorandum	USD(A&T)	4-9	Gerry Stephenson	DoDIG	703-604-9332
			4-3B	Conduct review	SAEs & DCMC	4-9	Gerry Stephenson	DoDIG	703-604-9332
<b>Quality Contractors</b>									
5-1		DoD contract administration oversight should be tailored based on a uniform risk assessment methodology.	5-1A	Memo to DoD Oversight activities	USD(A&T)	5-28	Elizabeth Boyce	DCAA	703-274-7521
			5-1B	DLA and DCAA to expand "Reinvention Laboratory"	DCMC	5-28	Elizabeth Boyce	DCAA	703-274-7521
			5-1C	Develop risk assessment process.	CAEs & DCAA	5-28	Elizabeth Boyce	DCAA	703-274-7521
			5-1D	Procedures developed to require use of risk assessments in CAS	CAEs & DCAA	5-28	Elizabeth Boyce	DCAA	703-274-7521
<b>Quality Contractors</b>									



Chapter	Rec #	Recommendation	Task #	Implementing Task	OPR	Page	PAT POC	ORG	Phone#
5-2		When conducting risk assessments, DoD activities should request, review, and consider all evidence (Government, contractor, and commercially available) that may mitigate perceived risks and the need for DoD oversight.	5-2A	Memo to buying agencies and technical activities	USD(A&T)	5-29	Richard Kane	DLA	703-274-7655
			5-2B	DCMC to develop process for collecting, storing, retrieving data.	DCMC	5-29	Richard Kane	DLA	703-274-7655
			5-2C	Policies Changed	CAEs & DCAA	5-29	Richard Kane	DLA	703-274-7655
Quality Contractors									
5-3		DoD activities should encourage and facilitate contractor preparation and submission of "Alternative Oversight Proposals" (AOPs).	5-3A	USD(A&T) memo to implement plans for AOPs	USD(A&T)	5-30	Ivan Hall	DLA	317-542-2021
			5-3B	Agencies finalize plans for implementation plans	CAEs & DCAA	5-30	Ivan Hall	DLA	317-542-2021
Quality Contractors									
5-4		DoD should establish pilot locations to test the viability of Contractor Self-Oversight through the use of designated representatives.	5-4A	Memo directing DLA and Services to establish pilot locations.	USD(A&T)	5-30	Ed Coruzzi	DLA	407-951-5346
			5-4B	Identify locations for pilot studies.	CAEs	5-30	Ed Coruzzi	DLA	407-951-5346
			5-4C	Develop and execute operations plan.	DCMC	5-30	Ed Coruzzi	DLA	407-951-5346

Order #	Recommendation	Task #	Implementing Task	OPR	Page	PAT POC	ORG	Phone#
6-1	Revise DFARS Part 209.106-1(a) to encourage the initial use of commercially supplied data in pre-award considerations of a contractor's responsibility, before requesting the CAO to perform a Pre-Award Survey.	6-1A	Revise DFARS Part 209.106-1(a)	DDP	6-5	S.W. Baker	DLA	513-296-6610
<b>Engineering and Software</b>								
7-1	Provide guidance for negotiating CAS program support plans and Memoranda of Agreement	7-1A	Revise DLAD 5000.4	DCMC	7-4	Sam Horstman	DLA	817-885-7740
<b>Engineering and Software</b>								
7-2	Improve engineering and software technical support to customers	7-2A	Implement a formal program to ensure technical currency	DCMC	7-6	Sam Horstman	DLA	817-885-7740
		7-2B	Issue guidance for CAS tech personnel to obtain program office training	CAEs	7-7	Sam Horstman	DLA	817-885-7740
		7-2C	Expand availability of technical experts when requirements exceed capability	DCMC	7-8	Sam Horstman	DLA	817-885-7740
<b>Consent to Subcontracts</b>								
8-1	Revise FAR Parts 44.102 and 44.201, and Clauses 52.244-1, -2, and -3 to delete the subcontract consent requirement, unless specifically required by the Contracting Officer.	8-1A	Revise FAR 44.102, 44.201, and 52.244-1, -2, and -3	DDP	8-2	Pat Matura	DLA	516-574-2925
<b>Annual ADPE Leasing Reviews</b>								
9-1	Eliminate the DFARS 239.7303 requirement for contracting officers to conduct an annual review of contractor ADPE leasing costs to allow risk management in data technology oversight.	9-1A	Revise DFARS 239.7303	DDP	9-2	Anne-Marie Chavez	DCAA	703-602-4784

#### Production Surveillance

Chapter	Rec #	Recommendation	Task #	Implementing Task	OPR	Page	PAT POC	ORG	Phone#
	10-1	Accelerate the deployment of the Advance Liaison On Emergent Risk To Schedules (ALERTS) software program through-out DCMC	10-1A	Accelerate ALERTS through-out DCMC.	DCMC	10-4	Bob Hoff	DLA	909-944-2134
	Production Surveillance								
	10-2	Expand ALERTS to include Program Integration, Support Program Integration and Subcontracting Management functions.	10-2A	Expand ALERTS to include program & subcontracting management integration	DCMC	10-5	Bob Hoff	DLA	909-944-2134
Warranties	11-1	Review current DoD warranty practices for possible revision or elimination, and adopt commercial warranty practices as practicable.	11-1A	Charter a Process Reform Team	USD(A&T)	11-3	Rob Weinhold	DLA	703-274-4039
			11-1B	Commence PRT Activities	DUSD(AR)	11-3	Rob Weinhold	DLA	703-274-4039
			11-1C	Make recommendations for improvement	USD(A&T)	11-3	Rob Weinhold	DLA	703-274-4039
Warranties	11-2	Review and incorporate commercial warranty features into Government warranties as practicable.	11-2A	Charter a Process Reform Team	USD(A&T)	11-7	Rob Weinhold	DLA	703-274-4039
			11-2B	Commence PRT Activities	DUSD(AR)	11-7	Rob Weinhold	DLA	703-274-4039
			11-2C	Make recommendations for improvement	USD(A&T)	11-7	Rob Weinhold	DLA	703-274-4039
Government Property	12-1	Authorize Plant Clearance Officer (PLCO) to decide disposition of assets in scrap condition, without limited screening.	12-1A	Prepare FAR/DFARS class deviation	DDP	12-3	Manny Herrada	DLA	408-742-0559
			12-1B	Revise FAR Part 45 and DFARS Part 245	DDP	12-3	Manny Herrada	DLA	408-742-0559
			12-1C	Prepare legislative changes	DDP	12-3	Manny Herrada	DLA	408-742-0559
			12-1D	Collect data	DCMC	12-3	Manny Herrada	DLA	408-742-0559

Chapter	Rec #	Recommendation	Task #	Implementing Task	OPR	Page	PAT POC	ORG	Phone#
Government Property									
12-2		Remove tracking and monitoring requirements for low value Government property. Further, contractors shall be responsible for replacement value of such property that is lost, damaged, or destroyed through other than normal wear and tear.	12-2A	Prepare Class deviation to FAR Part 45 and 52.245	DDP	12-5	Kevin Koch	DLA	408-289-3501
			12-2B	Revise FAR Part 45 and 52.245	DDP	12-5	Kevin Koch	DLA	408-289-3501
			12-2C	Collect Data	DCMC	12-5	Kevin Koch	DLA	408-289-3501
Oversight of Overhead Rates									
13-1		Establish tailored Forward Pricing Rate Agreement (FPRA's) for smaller contracts when it is impossible to reach agreement for all business at a location.	13-1A	Permit tailored agreements	DCMC	13-5	Jay Moyes	DLA	214-705-1853
			13-1B	Determine locations for tailored agreements	DCMC	13-5	Jay Moyes	DLA	214-705-1853
			13-1C	Determine major cost drivers & develop risk parameters	DCMC	13-5	Jay Moyes	DLA	214-705-1853
			13-1D	Incorporate agreements into FPRA/FPRR tracking system	DCMC	13-5	Jay Moyes	DLA	214-705-1853
			13-1E	Review cost effectiveness	DCMC	13-5	Jay Moyes	DLA	214-705-1853
Oversight of Overhead Rates									
13-2		When an element of an FPRA is no longer valid, institute a methodology to renegotiate elements of the FPRA rather than renegotiating the total agreement.	13-2A	Permit Continuous Updates	DCMC	13-6	Jay Moyes	DLA	214-705-1853
			13-2B	Determine locations for continuous updates	DCMC	13-6	Jay Moyes	DLA	214-705-1853
			13-2C	Determine major cost drivers & develop risk parameters	DCMC	13-6	Jay Moyes	DLA	214-705-1853
			13-2D	Incorporate updates into FPRA/FPRR tracking system	DCMC	13-6	Jay Moyes	DLA	214-705-1853

Chapter	Rec #	Recommendation	Task #	Implementing Task	OPR	Page	PAT POC	ORG	Phone#
	13-2	When an element of an FPRA is no longer valid, institute a methodology to renegotiate elements of the FPRA rather than renegotiating the total agreement.	13-2E	Review cost effectiveness	DCMC	13-6	Jay Moyes	DLA	214-705-1853
<b>Oversight of Overhead Rates</b>									
	13-3	Change DFARS to require ACOs to make a reduction in progress payments of 10% when a contractor's estimating system is judged to be inadequate and the ACO determines that insufficient progress is being made to bring the system into compliance.	13-3A	Revise DFARS 215.811-70(f)(6) & 252.215-7002(e)	DDP	13-8	Bill Papp	DLA	802-657-6465
<b>Oversight of Overhead Rates</b>									
	13-4	Perform a should-cost analysis (full or partial) only when application of objective, empirical data indicates a review is necessary.	13-4A	Revise DFARS 215.809	DDP	13-11	Chuck Neumann	DLA	314-232-8076
<b>Oversight of Overhead Rates</b>									
	13-5	Reduce average cycle time for final overhead settlement through: audit sampling, timely overhead proposals, extended proposal due dates, improved contract clauses, audit time limits and goals for audit and final settlement.	13-5A	Finalize audit sampling process	DCAA	13-14	Joe Ashley	DCAA	404-319-4407
			13-5B	Establish performance goals and tracking system for final resolution	DCMC	13-14	Joe Ashley	DCAA	404-319-4407
			13-5C	Revise FAR 42.705	DDP	13-14	Joe Ashley	DCAA	404-319-440
			13-5D	Revise FAR 52.216-7 and -13	DDP	13-14	Joe Ashley	DCAA	404-319-440
			13-5E	Ensure timely submission of overhead rate proposals	DCMC	13-14	Joe Ashley	DCAA	404-319-4407

Chapter	Rec #	Recommendation	Task #	Implementing Task	OPR	Page	PAT POC	ORG	Phone#
13-5		Reduce average cycle time for final overhead settlement through: audit sampling, timely overhead proposals, extended proposal due dates, improved contract clauses, audit time limits and goals for audit and final settlement.	13-5F	Ensure timely completion of incurred cost audits	DCAA	13-14	Joe Ashley	DCAA	404-319-4407
<b>Cost Monitoring</b>									
14-1		Change DoD and DCMC policy to allow Contract Administration Offices (CAOs) more flexibility in planning and executing their Cost Monitoring Programs.	14-1A	Delete DFARS 242.7003-1(b).	DDP	14-3	Phil Varney	DLA	617-451-4110
			14-1B	Amend DFARS 242.7003-1(a)	DDP	14-3	Phil Varney	DLA	617-451-4110
			14-1C	Revise DLAD5000.4, Chapter 14	DCMC	14-3	Phil Varney	DLA	617-451-4110
			14-1D	Renumber subparagraphs in DLAD 5000.4	DCMC	14-3	Phil Varney	DLA	617-451-4110
<b>Contract Closeout</b>									
15-1		Agree with the concept and direction of the AFMC/Interagency PAT Report. Alternatives to selected specific recommendations are proposed in the discussion.	15-1A	Issue policy letter in lieu of FAR change	AFMC	15-4	Karen Alday	DLA	319-378-2038
			15-1B	Issue policy letter raising quick closeout threshold	DCMC	15-4	Karen Alday	DLA	319-378-2038
			15-1C	Eliminate financial incentive from MOA.	AFMC	15-4	Karen Alday	DLA	319-378-2038
			15-1D	Utilize existing report to track metrics for overhead	AFMC	15-4	Karen Alday	DLA	319-378-2038
			15-1E	Sanitize current report requirements, compile remainder into database	DCMC & AFMC	15-4	Karen Alday	DLA	319-378-2038
			15-1F	Include CLIN on Bureau Vouchers vice CLIN and ACRN	AFMC	15-4	Karen Alday	DLA	319-378-2038

Chapter	Rec #	Recommendation	Task #	Implementing Task	OPR	Page	PAT POC	ORG	Phone#
	15-1	Agree with the concept and direction of the AFMC/Interagency PAT Report. Alternatives to selected specific recommendations are proposed in the discussion.	15-1G	Tailored training for DFAS	AFMC & DFAS	15-4	Karen Alday	DLA	319-378-2038
<b>Contract Closeout</b>									
	15-2	Implement a process to pre-validation DD Form 250 data against the contract database.	15-2A	Include in current SPS/MOCAS migration strategy.	DCMC & SPS PMO	15-6	Dave Brown	DLA	212-337-0504
<b>Contract Closeout</b>									
	15-3	Eliminate "Letters of Transmittal" as an alternative to DD Form 250 to accompany deliverable data specified on a Contract Data Requirements List (CDRL) (DD Form 1423) or equivalent.	15-3A	Revise DoD 5010.12-M	OSD(CALS & EDI)	15-8	Karen Alday	DLA	319-378-2038
			15-3B	Revise DLAD 5000.4 Part VI	DCMC	15-8	Karen Alday	DLA	319-378-203
			15-3C	Revise DLAD 5000.4 Part XIV	DCMC	15-8	Karen Alday	DLA	319-378-203
			15-3D	Change DFAS Columbus Desk Procedure 201	DFAS	15-8	Karen Alday	DLA	319-378-2038
<b>Contract Closeout</b>									
	15-4	Expand current notification capabilities within the automated contract management system to ensure efficient contract administration. Incorporate the capability into the SPS/MOCAS migration strategy.	15-4A	Initiate upgrade effort to coincide with task 2-1B of this report.	SPS PMO	15-9	Dave Brown	DLA	212-337-0504

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# CAS-PAT Recommendations Sorted by Office of Primary Responsibility (OPR)

08-Feb-95

OPR	Chapter	Rec. #	Imp. Task #	Page #	PAT POC	Phone #
AFMC	Contract Closeout	15-1	15-1A	15-4	Karen Alday	319-378-2038
			15-1C	15-4	Karen Alday	319-378-2038
			15-1D	15-4	Karen Alday	319-378-2038
			15-1F	15-4	Karen Alday	319-378-2038
AFMC & DFAS	Contract Closeout	15-1	15-1G	15-4	Karen Alday	319-378-2038
CAEs	Early CAS	3-2	3-2F	3-13	Jeff Allan	703-274-7726
			3-2G	3-14	Jeff Allan	703-274-7726
	Early CAS	3-3	3-3B	3-15	Jeff Allan	703-274-7726
			3-3D	3-15	Bob Nichol	703-274-8288
	Quality Contractors	5-4	5-4B	5-30	Ed Coruzzi	407-951-5346
	Engineering and Software	7-2	7-2B	7-7	Sam Horstman	817-885-7740
CAEs & DCAA	Quality Contractors	5-1				

OPR	Chapter	Rec. #	Imp. Task #	Page #	PAT POC	Phone #
DCAA	Quality Contractors	5-2	5-1C	5-28	Elizabeth Boyce	703-274-7521
			5-1D	5-28	Elizabeth Boyce	703-274-7521
	Quality Contractors	5-3	5-2C	5-29	Richard Kane	703-274-7655
			5-3B	5-30	Ivan Hall	317-542-2021
DCMC	Oversight of Overhead Rates	13-5	13-5A	13-14	Joe Ashley	404-319-4407
			13-5F	13-14	Joe Ashley	404-319-4407
	Enterprise Automation	2-1	2-1A	2-5	Ron Leong	818-904-6402
			3-3A	3-14	Jeff Allan	703-274-7726
	Early CAS	3-3	3-3C	3-15	Jeff Allan	703-274-7726
			4-1A	4-7	Gerry Stephenson	703-604-9332
	Technical Representatives	4-2	4-2A	4-6	Gerry Stephenson	703-604-9332
			5-1B	5-28	Elizabeth Boyce	703-274-7521
	Quality Contractors	5-1	5-2B	5-29	Richard Kane	703-274-7655
			5-4			
	Quality Contractors	5-2				

OPR	Chapter	Rec. #	Imp. Task #	Page #	PAT POC	Phone #
			5-4C	5-30	Ed Coruzzi	407-951-5346
	Engineering and Software	7-1	7-1A	7-4	Sam Horstman	817-885-7740
	Engineering and Software	7-2	7-2A	7-6	Sam Horstman	817-885-7740
			7-2C	7-8	Sam Horstman	817-885-7740
	Production Surveillance	10-1	10-1A	10-4	Bob Hoff	909-944-2134
	Production Surveillance	10-2	10-2A	10-5	Bob Hoff	909-944-2134
	Government Property	12-1	12-1D	12-3	Manny Herrada	408-742-0559
	Government Property	12-2	12-2C	12-5	Kevin Koch	408-289-3501
	Oversight of Overhead Rates	13-1	13-1A	13-5	Jay Moyes	214-705-1853
			13-1B	13-5	Jay Moyes	214-705-1853
			13-1C	13-5	Jay Moyes	214-705-1853
			13-1D	13-5	Jay Moyes	214-705-1853
			13-1E	13-5	Jay Moyes	214-705-1853
	Oversight of Overhead Rates	13-2	13-2A	13-6	Jay Moyes	214-705-1853
			13-2B	13-6	Jay Moyes	214-705-1853
			13-2C	13-6	Jay Moyes	214-705-1853

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	Oversight of Overhead Rates	13-5	13-2D	13-6	Jay Moyes	214-705-1853
			13-2E	13-6	Jay Moyes	214-705-1853
	Cost Monitoring	14-1	13-5B	13-14	Joe Ashley	404-319-4407
			13-5E	13-14	Joe Ashley	404-319-4407
	Contract Closeout	15-1	14-1C	14-3	Phil Varney	617-451-4110
			14-1D	14-3	Phil Varney	617-451-4110
	Contract Closeout	15-3	15-1B	15-4	Karen Alday	319-378-2038
			15-3B	15-8	Karen Alday	319-378-2038
DCMC & AFMC	Contract Closeout	15-1	15-3C	15-8	Karen Alday	319-378-2038
			15-1E	15-4	Karen Alday	319-378-2038
DCMC & SPS PMO	Contract Closeout	15-2	15-2A	15-6	Dave Brown	212-337-0504
			2-5A	2-9	Ron Leong	818-904-6402
DDP	Enterprise Automation	2-5	3-1A	3-9	Jeff Allan	703-274-7726
			Early CAS	3-1		

OPR	Chapter	Rec. #	Imp. Task #	Page #	PAT POC	Phone #
Early CAS						
		3-2				
			3-2A	3-11	Bob Nichol	703-274-8288
			3-2B	3-11	Bob Nichol	703-274-8288
			3-2C	3-11	Bob Nichol	703-274-8288
			3-2D	3-12	Bob Nichol	703-274-8288
	Pre-Award Surveys	6-1				
			6-1A	6-5	S.W. Baker	513-296-6610
			6-1B	6-6	S.W. Baker	513-296-6610
	Consent to Subcontracts	8-1				
			8-1A	8-2	Pat Matura	516-574-2925
	Annual ADPE Leasing Reviews	9-1				
			9-1A	9-2	Anne-Marie Chavez	703-602-4784
	Government Property	12-1				
			12-1A	12-3	Manny Herrada	408-742-0559
			12-1B	12-3	Manny Herrada	408-742-0559
			12-1C	12-3	Manny Herrada	408-742-0559
	Government Property	12-2				
			12-2A	12-5	Kevin Koch	408-289-3501
			12-2B	12-5	Kevin Koch	408-289-3501
	Oversight of Overhead Rates	13-3				
			13-3A	13-8	Bill Papp	802-657-6465
	Oversight of Overhead Rates	13-4				
			13-4A	13-11	Chuck Neumann	314-232-8076
			13-4B	13-11	Chuck Neumann	314-232-8076

OPR	Chapter	Rec. #	Imp. Task #	Page #	PAT POC	Phone #
	Oversight of Overhead Rates	13-5	13-5C	13-14	Joe Ashley	404-319-4407
			13-5D	13-14	Joe Ashley	404-319-4407
			14-1A	14-3	Phil Varney	617-451-4110
			14-1B	14-3	Phil Varney	617-451-4110
DFAS	Cost Monitoring	14-1				
DUSD(AR)	Contract Closeout	15-3	15-3D	15-8	Karen Alday	319-378-2038
	Enterprise Automation	2-2	2-2A	2-7	Ron Leong	818-904-6402
			11-1B	11-3	Rob Weinhold	703-274-4039
OSD(C)	Warranties	11-1				
	Warranties	11-2	11-2B	11-7	Rob Weinhold	703-274-4039
OSD(CALS&ED I)	Enterprise Automation	2-5	2-5H	2-9	Ron Leong	818-904-6402
SAEs & DCMC	Contract Closeout	15-3	15-3A	15-8	Karen Alday	319-378-2038
	Technical Representatives	4-3				

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SPS PMO	Enterprise Automation	2-1	4-3B	4-9	Gerry Stephenson	703-604-9332
			2-1B	2-5	Ron Leong	818-904-6402
	Enterprise Automation	2-3	2-3A	2-7	Ron Leong	818-904-6402
			2-3B	2-7	Ron Leong	818-904-6402
			2-3C	2-7	Ron Leong	818-904-6402
	Enterprise Automation	2-4	2-4A	2-8	Ron Leong	818-904-6402
	Enterprise Automation	2-5	2-5B	2-9	Ron Leong	818-904-6402
			2-5C	2-9	Ron Leong	818-904-6402
			2-5D	2-9	Ron Leong	818-904-6402
			2-5E	2-9	Ron Leong	818-904-6402
			2-5F	2-9	Ron Leong	818-904-6402
			2-5G	2-9	Ron Leong	818-904-6402
	Contract Closeout	15-4	15-4A	15-9	Dave Brown	212-337-0504
USD(A&T)	Early CAS	3-2	3-2E	3-13	Jeff Allan	703-274-7726
	Technical Representatives	4-1	4-1B	4-7	Gerry Stephenson	703-604-9332
	Technical Representatives	4-2				

OPR	Chapter	Rec. #	Imp. Task #	Page #	PAT POC	Phone #
	Technical Representatives	4-3	4-2B	4-7	Gery Stephenson	703-604-9332
	Quality Contractors	5-1	4-3A	4-9	Gery Stephenson	703-604-9332
	Quality Contractors	5-2	5-1A	5-28	Elizabeth Boyce	703-274-7521
	Quality Contractors	5-3	5-2A	5-29	Richard Kane	703-274-7655
	Quality Contractors	5-4	5-3A	5-30	Ivan Hall	317-542-2021
	Quality Contractors		5-4A	5-30	Ed Coruzzi	407-951-5346
	Engineering and Software	7-1	7-1B	7-4	Sam Horstman	817-885-7740
	Warranties	11-1	11-1A	11-3	Rob Weinhold	703-274-4039
			11-1C	11-3	Rob Weinhold	703-274-4039
	Warranties	11-2	11-2A	11-7	Rob Weinhold	703-274-4039
			11-2C	11-7	Rob Weinhold	703-274-4039



# APPENDIX C

## SUBJECTS FOR FURTHER STUDY

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4. Collocation of DCMC CAS Activities on DoD Property.....	C-8
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9. Contractor Past Performance Data.....	C-13
10. Serviceable or Useable Property Disposition.....	C-14
11. Implied Warranties.....	C-15
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This appendix is a compendium of short issue papers which outline some of those areas which the PAT members thought were issues worthy of further consideration. These issues were not included in the full report due to time constraints, and/or lack of consensus by the PAT members.

Issue: Contract Payment/FinancingRecommendation:

The Process Action Team (PAT) has been advised that the Assistant Secretary of Defense (Economic Security) is currently reassessing progress payments. It is recommended that their efforts include a review of other methods of contract financing, e.g., milestone based payments, installment type payments, and private financing.

Discussion:

The PAT charter recognizes that considerable effort has been expended in studying the contract payment process, including contract financing. Federal Acquisition Regulation (FAR) Case 94-763 recommends changing FAR 32.2, Financing Purchases of Commercial Items, to be consistent with 10 U.S.C. 2307(f) and 41 U.S.C. 255(f). 10 U.S.C. 2307(f) provides that payments "... for commercial items may be made under such terms and conditions as the head of the agency determines are appropriate or customary in the commercial marketplace and are in the best interests of the United States ."

DoD has initiated FAR Case 94-764, Performance-Based Payments. This case is in response to the Acquisition Streamlining Act which requires the use of performance-based payments whenever practicable. The case presently limits the use of performance-based payments to contracts for supplies or services with a price of \$300,000,000 or more and the first delivery is two or more years after contract award. The PAT is of the opinion that such alternatives should be researched by a separate PAT to determine the feasibility of a much broader application of performance-based payments to include milestone and installment arrangements. The PAT also considered the possibility of encouraging private financing of Government contracts and changing interest expense from an unallowable to an allowable cost. This issue was addressed by the Defense Financial and Investment Review (DFAIR). A legal opinion, received from the Defense Contract Audit Agency (DCAA), advises that there are no statutory prohibitions to "... amending FAR to provide for the recognition of contract financing costs ...". If a PAT is chartered, it should consider the DFAIR and determine if the economic conditions, the movement to commercial practices, and the cost/benefit relationship would support private financing as an acceptable alternative method. A draft charter is provided as Attachment 1.

References:

FAR Cases 94-763 and 94-764

Defense Financial and Investment Review, June 1985

Eliminating Unmatched Disbursements A Combined Approach, June 1994

Point of Contact:

Gerald Conroy, DCMDs, (404) 590-6135

ATTACHMENT 1

PROPOSED CHARTER

PROCESS ACTION TEAM  
ALTERNATIVE METHODS OF CONTRACT FINANCING

I. Background

The need to institute more cost effective and efficient methods of contract management demand that all established processes be reviewed for any possible improvements. A great deal of dialogue has occurred over the past few years concerning the contract payment process.

Considerable effort has been expended in studying the contract payment process, particularly through the Acquisition and Financial Management Panel chaired by the DoD Comptroller and the Principal Deputy Under Secretary of Defense (Acquisition and Technology). A report by the Acquisition and Financial Management Working Group, "Eliminating Unmatched Disbursements, A Combined Approach," is a detailed study of unmatched disbursements. While additional study of the payment process is needed, as evidenced by various ongoing initiatives, implementation of the recommendations in this report will improve the existing payment process. In addition, the PAT's efforts indicate there may be additional opportunities for improvement in a process related to contract payment, that process is contract financing.

As DoD takes action to implement the direction of the National Performance Review by instituting commercial contracting practices, the currently established methods of contract financing practiced by the Government must be reviewed for improvement opportunities.

II. Purpose

The Process Action Team is to review existing regulations, guidance, and initiatives governing contract financing of Government contracts. The goal is to identify opportunities for process improvement. Recommendations for improvement must result in more efficient payment and contract surveillance processes. Suggested opportunities for consideration include a broader application of performance based (milestone) payments, installment payments, and private financing.

To assist the Process Action Team in their efforts, the following documents should form the basis of the necessary research:

FAR Case 94-763

FAR Case 94-764

FAR Case 94-790

DCAA Memorandum, Reimbursement of Interest Cost - Possible FAR Change,  
23 Nov 94

SAF/AQCF Briefing, Comparison of Commercial and DoD Aircraft Procurement Terms  
and Conditions, 1 Feb 94  
Defense Financial and Investment Review, June 1985

III. Resources

The Process Action Team should include functional experts with DoD financial management responsibilities, procurement and administrative contracting officers, program management, and DCAA.

IV. Schedule

The Process Action Team should be chartered within the first quarter following approval by the DUSD, Acquisition Reform. After being assembled, the Process Action Team should be permitted to study the issues and determine the time frame for completion.

Issue: Increase Cost or Pricing Data Threshold

Recommendation:

FAR 15.804-2 was recently revised to change the cited threshold for certified cost or pricing data. The PAT recommends that at the next reasonable opportunity, the FAR be further revised to double the threshold for contractors that have adequate estimating systems.

Discussion:

Contractors who maintain adequate estimating systems provide for more cost effective proposal preparation, analysis, and negotiation processes. Proposals generated by an inadequate system require more intensive reviews, result in qualified audit and cost analysis reports, and generally result in requests for additional supporting rationale and analysis. The end result is more costly processes for both the contractor and the Government. The additional contractor costs are then reflected in the price of goods and services sold to the Government. The need for more extensive/detailed proposal analysis results in additional Government resources. Therefore, an increase in the number and consistency of adequate estimating systems will benefit the Government and contractors through lower prices and reduced oversight.

Comments received on the Draft Report concerning this recommendation were not supportive of the change because of the recent increase in the threshold pursuant to the Federal Acquisition Streamlining Act and the additional risk assumed by the Government if the change was made. However, the PAT suggests further study would demonstrate the value of this concept in terms of incentivizing contractors to have and maintain adequate estimating systems and the minimal increase in Government risk.

References:

FAR 15.804-2, Requiring Certified Cost or Pricing Data

Point of Contact

Gerald Conroy, Defense Contract Management District South, (404) 590-6135

Issue: Managing Government Resources

Recommendation:

Use the Fee for Service concept to manage Defense Contract Management Command (DCMC) resources.

Discussion:

"Doug Ayres, who owns a company that helps California governments determine their true costs, says that only 4 percent of local governments know the direct cost of each service they provide, ... and only 10 percent can even tell you what services they provide! Obviously, public managers cannot think like investors or pursue profits if they don't know their true costs" (Osborne & Gaebler).

Government organizations have traditionally steered away from the fee for service concept. With the implementation of the Performance Labor Accounting System (PLAS), DCMC can collect cost to any level. Added to the emphasis on government organizations to use commercial methodologies, it may be time to reexamine the use of fee for service in DCMC. The concept can be used to manage whether or not DCMC becomes part of the Defense Business Operating Fund.

The legal profession is now undergoing a self assessment on the use of flat fees versus open-ended billable hours methods due to increased competition in the legal profession. The engineering and medical professions are also undergoing similar reviews.

Much of what DCMC does parallels the legal profession. DCMC can relate work to tasks or to products. One DCMC organization has oriented their operations to products, and they have published a brochure describing each product. Thus, the customer knows what to expect from the organization and the organization knows what product to produce. Even something as nebulous as system surveillance can be defined in terms of an output product by making the effort a closed (definable) process. Once the task or product is determined, the next step is to determine the cost of the product. Without understanding what products are delivered to customers and the cost of those products, it is difficult to improve or justify the service.

References:

Osborne, D & Gaebler, T (1992) Reinventing Government - How the Entrepreneurial Spirit is Transforming the Public Sector, New York, NY: Penguin Books USA Inc.  
Defense Plant Representative Office Martin Marietta Denver Products & Services Catalog  
Stevens, Amy (Jul 1, 1994) Lawyers and Clients: Lawyers gaze at a future of bills that are task based. The Wall Street Journal.

Point of Contact:

Lester Kuhl, Chief, Operations Group (North), DPRO Martin Marietta Delaware Valley,  
(609) 338-3703

Issue: Collocation of Defense Contract Management Command (DCMC) CAS Activities on DoD Property

Recommendation:

Study the possibility of collocating DCMC contract administration offices with buying activities to facilitate teaming and reduce expense.

Discussion:

In order to facilitate coordination and cooperation between DCMC and major buying commands, and to reduce expense, it may be practical to combine DCMC administrative and procuring activities into a single facility. For example, DCMAO Detroit and U.S. Army Tank Automotive and Armament Command (TACOM) are both located in Warren, MI. DCMAO Detroit is located only about 12 miles from TACOM, or about twenty-five minutes apart. Although located in the Federal Court House, DoD pays \$400,000 annual rent for a workforce of about 120. DCMAO Detroit administers approximately 4800 contracts. Of these contracts, 80% are TACOM contracts. This consolidation would optimize resources, reduce expense, and facilitate better communication between the offices.

DCMC should review the location of area offices and field activities in proximity to buying activities to determine where collocation is practical.

References: None

Point of Contact:

Bob Nichol, Industrial Specialist, Army Materiel Command, (703) 274-8288



**Issue:** Collocation of Government Oversight Personnel in the Contractors' Internal Audit Organization

**Recommendation:**

One of the methodologies that the DCMC can use to reduce personnel in a contractors' facility is the collocation of the government oversight personnel in the contractors' financial and functional internal audit organization(s). The DCMC personnel would participate in the contractors internal audit program as team members.

**Discussion:**

The current trends in the internal audit function of many contractors can aid DCMC in the reduction of oversight in low risk contractors by using the contractors internal audit organization as the DCMC oversight organization. Internal audit programs are moving from just financial auditing to include operational auditing (Vondra). At the same time the Institute of Internal Auditors have strengthened their statement of Internal Audit Standards to make the follow up of findings an essential element (Colbert). The expansion into the operational audit area by the contractor's internal audit organizations lays the ground work for using the contractors internal audit organization as a major element of government oversight. Currently, many major contractors already are doing both financial and operational audits. A contractor with a strong internal audit program that is also considered a low risk contractor, would be a candidate for disengagement.

Minimum government oversight could be maintained by collocating government personnel in the contractors internal audit process (Sternberg). A contractor would augment their internal audit organization with personnel from DCMC. The Government personnel would team with contractor personnel on reviews of the contractors operations to assure the taxpayers' interests are protected. This method should result in a reduction of government personnel in the contractors plant. If there is no requirement to support a buying office, all oversight functions could be accomplished by the proposed group. In extreme cases where the contractor and the Government personnel could not agree that a problem exists, or the contractor is not following the problem aggressively, the Government team member could request an outside review by an organization such as the DCMCs ' Performance Assessment Review (PAR) team. The process would allow maximum disengagement while maintaining a high level of oversight.

**References:**

- Colbert, Janet L. (1994, Summer). Follow-up on Audit Findings: Implications of SIAS 13 and SAS 60. Internal Auditing.
- Sternberg, Ernest (1993, Nov/Dec) Preparing for the Hybrid Economy: The new world of Public - Private Partnership. Business Horizons.
- Vondra, Albert A. and Schueler, Dennis R. (1993, March/April) Can You Innovate your Internal Audit? Financial Executive.

**Point of Contact:**

Lester Kuhl, Chief, Operations Group (North), DPRO Martin Marietta Delaware Valley,  
(609) 338-3703

Issue: Resource Allocation Through Risk Assessment

Recommendation:

The Department of Defense should be utilizing risk management to determine and allocate resources within the department. The Defense Contract Management Command (DCMC) could specifically apply this concept by developing a process which would require their Resource Utilization Committees (RUC) to consider the relative risk to the Government at the various Contract Administration Offices (CAOs) in determining the amount of resources to be allocated at each of those locations.

Discussion:

The DoD IG in their inspection of DCMC (94-INS-12, Sep 29, 1994) determined that DCMC does not have an effective process for determining manpower requirements. There was no consistency across the command and no process which utilizes qualitative and quantitative workload measurement techniques to review and project manpower requirements.

DCMC concurred with this DoD IG finding and noted that they already were developing a "workload forecast model" to project its workload and a "staffing assistance model" to quantify the relationship between workload indicators and staffing requirements. However, these actions do not indicate that risk analysis would be utilized as part of the DCMC overall manpower requirements analysis methodology. In addition to and consistent with the recommendations contained in Chapter 5, Quality Contractors, of this report, DCMC should revise their methodology to account for risk in the allocation of resources to the field.

References:

Department of Defense Inspector General. (1994 ). Defense Contract Management Command. Inspection Report 94-INS-12, Arlington, VA: DoD Inspector General.

White Paper dated Jan 19, 1995, "Resource Allocation through Risk Management", by Michael E. Conn, DPRO, Boeing Seattle, WA.

Points of Contact:

Michael E. Conn, DPRO Boeing, Seattle WA (206) 773-7130  
Orelious Walker, HQ DCMC, Alexandria VA (703) 274-7731

Issue: Deficiency Reporting

Recommendation:

Expedite the development of the Deficiency Reporting System (DRS) program.

Discussion:

DoD Instruction 5000.2, Defense Acquisition Management Policies and Procedures, requires all DoD Components to establish a product deficiency reporting and correction system. The purpose of the requirement is to track and record the status of a product's operational quality condition. As a result of the instruction, every DoD Component has developed their own product deficiency reporting system.

The current deficiency reporting systems are very cumbersome, fail to provide timely feedback, and are not standardized. In addition, there is no database shared between the Services. Therefore, data must be manually collected to determine if a part purchased by all the Services and made by the same contractor has a common deficiency.

The DRS is being implemented slowly and all users have not been committed to providing the necessary resources. The PAT recommends that USD(A&T) increase surveillance over this project to assure completion. With this sponsorship, DRS will receive the necessary impetus for DoD-wide deployment.

References:

DoD Instruction 5000.2

Points of Contact:

Lt Col John D. Hutchinson, ASC/YW, DSN 785-7408

**Issue:** Program Status Data (PSD)**Recommendation:**

The benefit of the Program Status Data (PSD) automated database maintained by DCMC should be evaluated.

**Discussion:**

The contract administration function of program integration is knowing the status of the program at the contractor's facility, analyzing the validity and reasons underlying program problems, and communicating this information to the customer in a timely manner. In other words, it involves knowing what is happening in the plant and letting the program office know. In addition, the CAS function of subcontracting management is similar, albeit at the subcontractor, rather than the prime contractor level. The processes consist of gathering, analyzing, and communicating information.

Program Status Data (PSD) is an automated tool used by DCMC to provide program status on major weapon system programs. Each contract administration office that is delegated administration of a major program manually updates the information in PSD each month. Executive-level users can then retrieve program status in various graphic displays. PSD was initially designed to satisfy an internal DoD reporting requirement, not the requirements of primary CAS customers. After the DoD reporting requirement was cancelled, DCMC deployed PSD to selected primary customers to determine if it could fit their needs for program status. The PAT discussions with the customers indicate they had other, more meaningful channels of communication with CAOs. Furthermore, before internal DCMC users rely on PSD data, they typically make phone calls to CAOs to verify the data. It is unclear if anyone uses PSD as a primary data source, yet CAOs continue to expend significant resources to keep the system updated. Most PSD information appears to duplicate data in other sources such as MOCAS and the Program Status Reports generated by program integrators. The PAT believes any automated approach to program status reporting should focus on the needs of primary CAS customers, with DCMC as a secondary user. Therefore, the PAT recommends DCMC evaluate PSD to see if it meets the needs of CAS customers. If PSD is determined to exist primarily for internal DCMC uses, alternative solutions such as Enterprise Automation should be considered. The latter includes the consolidation of various data into a shared centralized database from which numerous customers could pull data in the format they need.

**References:**

DLAD 5000.4, Part IV, Chapter 8, Program Integration

**Points of Contact:**

Col Al Spencer, DPRO Westinghouse, (410) 765-6907  
Ronald J. Leong, DCMAO Van Nuys, (818) 904-6402  
Robert Hoff, DCMAO Santa Ana, (909) 944-2134

Issue: Contractor Past Performance Data

Recommendation:

Implement "The Preferred Contactor System" concept which provides an approach to collection, retrieval, storage, and usage of contractor past performance data in an Electronic Data Interchange environment.

Discussion:

DoD components have separately developed automated past performance databases, however, the information is not integrated nor widely shared across Service or Agency boundaries. Reasons for this are lack of standardized data transaction sets, standardized data definitions, and a contractor past performance evaluation model.

Reliance on easily accessible and accurate contractor past performance data is also inherent in the following CAS Reform PAT recommendations :

- Early Contract Administration Services
- Interface with Dun and Bradstreet service for Preaward Surveys
- Production Surveillance
- Quality Contractors
- Warranty Administration
- Deficiency Reporting System
- Enterprise Automation

Coordination between the Defense Procurement CIM Systems Center, the DoD EC/EDI Program Office, the Standard Procurement System Program Office, the Defense Information Support Agency, and the Past Performance Coordinating Council will be required to develop a cohesive plan for implementation.

References:

White Paper dated July 19, 1994, "The Preferred Contractor System", by the Electronic Commerce in Contracting Office

Points of Contact:

Col Al Spencer, DPRO Westinghouse, (410) 765-6907  
Ronald J. Leong, DCMAO Van Nuys, (818) 904-6402  
Robert Hoff, DCMAO Santa Ana, (909) 944-2134

Issue: Serviceable or Useable Property Disposition

Recommendation:

Eliminate the requirement for screening of serviceable or useable Government property at contract closeout.

Discussion:

Disposal of property from contractors' plants is a major cost driver and problem during contract closeout. Streamlining this process will result in savings to the Government and industry.

The new Plant Clearance Automated Reutilization Screening System (PCARSS) automates the flow of pre-defined transactions through the plant clearance reutilization and disposition process. The process is initiated when the contractor submits an electronically generated inventory schedule and continues electronically through final disposition. Reutilization of excess property should increase with this EDI disposition system; however, numerous changes must be made to Federal Acquisition Regulation (FAR) Part 45.6 to correct outdated and burdensome policies. The maintenance of old screening requirements while introducing an electronic plant clearance system is not in the best interest of the Government or industry.

Analysis of reutilization data by DLA could support the decision making process of the FAR Part 45 Rewrite Team.

References:

FAR Subpart 45.6-Reporting, Redistribution, and Disposal of Contractor Inventory  
DFARS Subpart 245.6-Reporting, Redistribution, and Disposal of Contractor Inventory  
GSA Code of Federal Regulations Title 41 Part 101-43, "Utilization of Personal Property (1993)"

Points of Contact:

Manuel Herrada, Administrative Contracting Officer (408) 742-0559  
Kevin Koch, Administrative Contracting Officer (408) 289-3501

Issue: Implied Warranties

Recommendation:

Conduct a pilot test and cost-benefit analysis of a proposed change to the language in the FAR clauses that prohibit the use of implied warranties.

Discussion:

The FAR currently contains language that specifically excludes the use of implied warranties on non-commercial items when express warranties are included. FAR Parts 46.706(b)(iii) and 52.246-17, -18, -19 contain language that excludes all "implied warranties of merchantability and fitness for use when express warranties are included in the contract". The use of implied warranties is also restricted by the language of the inspection clause of FAR Part 52.246-2 which states that Government acceptance of supplies is final except for "latent defects, fraud, gross mistakes amounting to fraud, or as otherwise provided in the contract".

The PAT suggests that the use of implied warranties should be at the discretion of the Government buying activity, based on the particular product/system being acquired. Specifically, implied warranties should be considered in programs where performance specifications are being used, rather than for programs that are still in the design phase. The use of implied warranties for non-commercial items will provide the Government additional leverage when seeking relief from the contractor and may provide additional incentive for contractors to provide products that conform to specifications. In cases where the Government is forced to litigate, it could also serve as additional support to the Government legal counsel.

Due to time and resource limitations, the CAS PAT was unable to conduct a trade-off analysis to support this recommendation. However, any follow-on activity should include a trade-off analysis; specifically, an assessment should be conducted of the potential cost impacts of using implied warranties versus potential cost savings realized through reduced levels of Government surveillance and oversight.

References:

FAR Part 46.706 (b)(iii)-Warranty Terms and Conditions.

FAR Part 46.301-Contractor Inspection Requirements.

FAR Part 52.246-1-Contractor Inspection Requirements, FAR 52.246-17 Warranty of Supplies of a Noncomplex Nature, FAR 52.246-18 Warranty of Supplies of a Complex Nature, and FAR 52.246-19 Warranty of Systems and Equipment Under Performance Specifications or Design Criteria.

Points of Contact:

Major Rob Weinhold, HQ DCMC, (703) 274-4039/DSN 284-4039.

Issue: Contract Warranty Provisions

Recommendation:

Pending the results of a pilot test program proposed by DLA, incorporate a DoD FAR clause that allows revocation of Government acceptance for patent defects found in non-commercial supplies.

Discussion:

Except when contracts contain specific warranty provisions, DoD has no contractual basis, subsequent to formal acceptance, to require contractors to rework, repair, or replace and/or provide restitution for non-commercial supplies which are patently nonconforming to contractual specifications.

As a result, the Government frequently suffers financial loss to correct supplies which contain defects discovered after formal acceptance. Government contractors should bear the responsibility for correcting patent defects, or provide restitution to the Government, as a matter of course.

A standard contractual remedy is needed when patently defective supplies are discovered after formal acceptance by the Government. The recommended DFARS clause should include patent defects as an exception to the finality of acceptance and language similar to the following: "When contracting for supplies or services, the contracting officer shall insert a clause with language that allows the Government to revoke acceptance for patent defects in supplies furnished to the Government, tailored to the product requirements and within a reasonable period of time after initial removal from inventory".

The Defense Logistics Agency has proposed a test of such a concept, at the request of the DoD IG, to identify nonconformances and support determinations of contractor causation. A test plan has been submitted for approval, which permits DLA to field warranty-like coverage and provides the right to reject patently nonconforming items within one year of acceptance, using a lab testing program to support the Government's claims for reimbursement.

The CAS PAT is including this issue to document activities relative to the DLA test program and to track the progress of implementation efforts and possible future incorporation of the proposed recommendation.

References:

Test Plan: Remedies for Post-Acceptance Discovery of Nonconformances, 10 Aug 94

Points of Contact:

Major Robert L. Weinhold, DCMC/AQCP, (703) 274-4039 or DSN 284-4039  
Ms. Mary Massaro, DLA/AQPLC, (703) 274-7936 or DSN 284-7936



Issue: Processing Contract Payments

Recommendation:

Review the feasibility of eliminating the invoice requirement for contract payment.

Discussion:

DoD contract payment requires that specific data elements of a contract, DD Form 250, and invoice match prior to issuing payment. DFAS spends a significant amount of time reconciling differences among the three documents. According to Reengineering the Corporation by Michael Hammer & James Champy, Ford Motor Company had a similar payment process utilizing more than 500 accounts payable employees to match purchase orders, receiving reports, and invoices. In a continuing effort to remain competitive, Ford determined the need to reengineer its procurement process. Their reengineering efforts resulted in the elimination of the invoice requirement by strengthening reliance on purchase orders and receiving reports. Furthermore, Ford was able to reduce its accounts payable staff from 500 to 125 people. Reengineering the DoD contract payment process could result in the elimination of unnecessary practices and the reduction of resources required.

References:

Reengineering the Corporation, Michael Hammer & James Champy

Point of Contact:

Tony Castrillo, DFAS Columbus, 614-693-5344

Issue: Workforce Efficiency

Recommendation:

The Industrial Specialist (GS-1150) and Quality Assurance Specialist (GS-1910) should be combined into a single occupational series.

Discussion:

Personnel responsible for production surveillance (GS-1150, Industrial Specialists (IS)) and quality assurance (GS-1910, Quality Assurance Specialist (QAS)) split responsibilities for schedule and quality contract provisions. In the past few years, there has been a move by the private sector to combine these functions into a single position. This has resulted from the change in focus from end item inspection to statistical process control methods to enforce quality standards.

Like private industry, the Department of Defense (DoD) could benefit from combining these two positions in several ways: a) first and foremost, it reflects the changes in acquisition policy and manufacturing methods that have taken place, b) it would highlight the need for an update of skills required to meet these new manufacturing and quality assurance methods, c) it would provide an opportunity for job enhancement, d) it would improve the efficiency by increasing the number of personnel capable of performing government acceptance and reducing the overlap between these two skill areas, and e) it would reduce the number of personnel in-plant.

The DoD career management board for these two functions have already combined them into one career path (i.e. Manufacturing, Production and Quality Assurance Career Field) for Defense Acquisition Workforce Improvement Act (DAWIA) certification purposes. This action, however, does not accomplish the recommendation to combine the two series into a single occupational series.

References:

- a. DoD 5000.52-M, Department of Defense Career Development Program for Acquisition Personnel.
- b. Classification Act of 1949.

Point of Contact:

Bob Nichol, Industrial Specialist, Army Materiel Command(703) 274-8288  
SW Baker, Quality Assurance Specialist, Defense Contract Management Command  
International (513) 296-6610

Issue: Contracting Officer Authority

Recommendation:

Review current regulatory requirements covering contracting officer procedures to reduce the numbers of reviews required and emphasize modern approaches to risk management.

Discussion:

In recent years volumes of procedural guidance and many levels of approval have gradually increased the regulation of contracting officer activities. As the PAT reviewed reform issues, several offices were requested to provide suggestions for contract administration reform. Many responses addressed the excessive time required to process procedures and paperwork.

In the last 10 years, three commissions [**President's Private Sector Survey on Cost Control (Grace Survey) 1984; President's Blue Ribbon Commission on Defense Management (Packard Report) 1986; and A Radical Reform of the Defense Acquisition System (Carnegie Commission) 1992**] have recommended "common sense" in the decision process and "giving acquisition personnel more authority to do their jobs".

The cost of micromanagement in the acquisition system has not been determined. However, personnel in the acquisition field are advising that the tendency to avoid risk through local operating procedures and levels of signature approval has exceeded reasonable management practice and economic effectiveness.

References:

FAR Subpart 1.602 - Contracting Officers  
FAR Subpart 15.803 - General  
DoD Directive 7640.2

Point of Contact:

Barbara Witte, Supervisory Contract Specialist (703) 602-6911

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# APPENDIX D

## ACRONYMS AND ABBREVIATIONS

ABC	Activity Based Costing
ACAT	Acquisition Category
ACO	Administrative Contracting Officer
ACRN	Accounting Classification Reference Number
ACSEP	Aircraft Certification Systems Evaluation Program
ACTS	Automated Configuration Tracking System
ADP	Automatic Data Processing
ADPE	Automatic Data Processing Equipment
AFMC	Air Force Materiel Command
AIA	Aerospace Industries Association
ALERTS	Advanced Liaison on Emergent Risk to Schedules
AMC	Army Materiel Command
AMIS	Acquisition Management Information System
AOP	Alternative Oversight Proposal
APADE	Automation of Procurement and Accounting Data Entry
ARSSG	Acquisition Reform Senior Steering Group
ATCOM	US Army Aviation & Troop Command
BCAS	Base Contracting Automation System
BCNP	Budget Cost Work Performed
C/SCSC	Cost/Schedule Control System Criteria
CAE	Component Acquisition Executive
CAO	Contract Administration Office
CAR	Contract Administration Report
CAS	Contract Administration Services
CAS	Cost Accounting Standards
CAS PAT	Contract Administration Services Process Action Team
CCF	Commercial, Competitive and Fixed-Price
CLIN	Contract Line Item Number
CDA	Central Design Activity
CDRL	Contract Data Requirements List
CMP	Cost Monitoring Program
CMSEP	Contractor Management System Evaluation Program
COTS	Commercial-Off-The-Shelf
CPARS	Contractor Performance Assessment Program Reporting
CPSR	Contractor Purchasing System Review
CRAG	Contractor Risk Assessment Guide
CSA	Critical Supplier Analysis
CSO	Contractor Self Oversight
CWAS	Contractor Weighted Average Share
D&B	Dun & Bradstreet
DAR	Designated Airworthiness Representative
DAU	Defense Acquisition University
DAWIA	Defense Acquisition Workforce Improvement Act
DCAA	Defense Contract Audit Agency

DCAAP	Defense Contract Audit Agency Pamphlet
DCMAO	Defense Contract Management Area Office
DCMC	Defense Contract Management Command
DCMDI	Defense Contract Management District International
DCMDN	Defense Contract Management District Northeast
DDP	Director of Defense Procurement
DFAR	Defense Federal Acquisition Regulation
DER	Designated Engineering Representative
DFARS	Defense Federal Acquisition Regulation Supplement
DFAS	Defense Finance and Accounting Services
DGSC	Defense General Supply Center
DISA	Defense Information Systems Agency
DLA	Defense Logistics Agency
DLAD	Defense Logistics Agency Directive
DLAM	Defense Logistics Agency Manual
DMIR	Designated Manufacturing Inspection Representative
DoC	Department of Commerce
DoD	Department of Defense
DoDI	Department of Defense Instruction
DoDIG	Department of Defense Inspector General
DPACS	Defense Logistics Agency Pre-award Contracting System
DPAS	Defense Priorities and Allocations Systems
DPRO	Defense Plant Representative Office
DRS	Deficiency Reporting System
DSDC	DLA System Design Center
DUSD (AR)	Deputy Under Secretary of Defense (Acquisition Reform)
EAC	Estimate @ Completion
EC	Electronic Commerce
ECP	Engineering Change Proposal
EDI	Electronic Data Interchange
EIS	Executive Information System
FAA	Federal Aviation Administration
FAR	Federal Acquisition Regulation
FASA	Federal Acquisition Streamlining Act
FOCUS	Facilitating Our Customers' Ultimate Satisfaction
FPMR	Federal Property Management Regulation
FPRA	Forward Pricing Rate Agreement
FPRP	Forward Pricing Rate Proposal
FPRR	Forward Pricing Rate Recommendations
FY	Fiscal Year
GAO	General Accounting Office
GSA	General Services Administration
GUI	Graphical User Interface
ICAP	Internal Control Audit Program
ICAPS	Internal Control Audit Program Summary

ICAS	Intergrated Contract Administration Services
ICP	Inventory Control Point
ILS	Integrated Logistics Support
IPT	Integrated Product Team
IR&D/B&P	Independent Research and Development/Bid and Proposal
ISO	International Organization for Standardization
IAW	In Accordance With
ITIMPS	Integrated Technical Item Management Procurement System
JDAM	Joint Direct Attack Munitions
LAN	Local Area Network
LAMPS	Light Airborne Multi Purpose System
MBNQA	Malcolm Baldrige National Quality Award
MIL-STD	Military Standards
MIS	Management Information System
MOA	Memorandum of Agreement
MOCAS	Mechanization of Contract Administration Services
MOU	Memorandum of Understanding
NASA	National Aeronautics and Space Administration
NAVAIR	Navy Air Systems Command
NDAA	Non Developmental Airlift Aircraft
NSIA	National Security Industrial Association
OFPP	Office of Federal Procurement Policy
OMB	Office of Management and Budget
OPR	Office Primary Responsibility
OSD	Office of the Secretary of Defense
OUSD	Office of the Under Secretary of Defense
PADDs	Procurement Automated Data and Document System
PAT	Process Action Team
PCAS	Performance Labor Accounting System
PCIM	Procurement Corporate Information Management
PCO	Procuring Contracting Officer
PDSS	Post Deployment Software Support
PEO	Program Executive Office
PLAS	Performance Labor Accounting System
PLCO	Plant Clearance Officer
PMA	Parts Manufacturer Approved
PMO	Program Management Office
PQDR	Product Quality Deficiency Reports
PRAG	Performance Risk Assessment Group
PROCAS	Process Oriented Contract Administration Services
PRT	Process Reform Team
PSD	Program Summary Data
QA	Quality Assurance
QAR	Quality Assurance Representative
QMB	Quality Management Board



QML	Quality Manufacturers Lists
QPL	Qualified Product List
ROAR	Reduced Oversight with Avoidance of Risk
ROD	Report of Deficiency
RFP	Request for Proposal
SAACONS	Standard Army Automated Contracting System
SAM	Software Acquisition Management
SE	Supplier Evaluation
SICM	System for Integrated Contract Management
SME	Subject Matter Experts
SPC	Statistical Process Control
SPDP	Software Professional Development Program
SPICE	Simplified Procurement in a Competitive Environment
SPR	Supplier Performance Reviews
SPS	Standard Procurement System
SQL	Structured Query Language
SRR	Scrap, Rework and Repair
SSPO	Navy Strategic System Program Office
ST	Special Tooling
STE	Special Test Equipment
TACOM	U.S. Tank and Automotive Command
TAG	Technical Advisory Group
TBD	To Be Determined
TCO	Termination Contracting Officer
TCD	Technical Compliance Designees
TDRS	Transportation Deficiency Report System
TI	Texas Instruments
T&M	Time and Material
TO	Technical Orders
TSN	Technical Support to Negotiations
UDB	Undelivered Dollar Balance
ULO	Unliquidated Obligation
UPP	Unliquidated Progress Payments
USD(A&T)	Under Secretary of Defense for Acquisition and Technology
VAP	Vulnerability Assessment Procedure
VRS	Vendor Rating System
WRAP	Workpackage Risk Analysis Procedures

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# APPENDIX E

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